



ST ANDREW'S JUNIOR COLLEGE

PRELIMINARY EXAMINATIONS 2019 (JC2)

General Certificate of Education Advanced Level

Higher 1

ECONOMICS

8823/01

Paper 1

2 September 2019

3 hours

READ THESE INSTRUCTIONS FIRST

Write your name and class on all the work you hand in.

Write in dark blue or black pen on both sides of the paper.

You may use a soft pencil for any diagrams, graphs or rough working.

Do not use staples, paper clips, highlighters, glue or correction fluid.

Answer **all** questions.

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

This document consists of 7 printed pages.

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[Turn Over]

Answer all questions.

Question 1: Love-Hate Relationship with Plastics

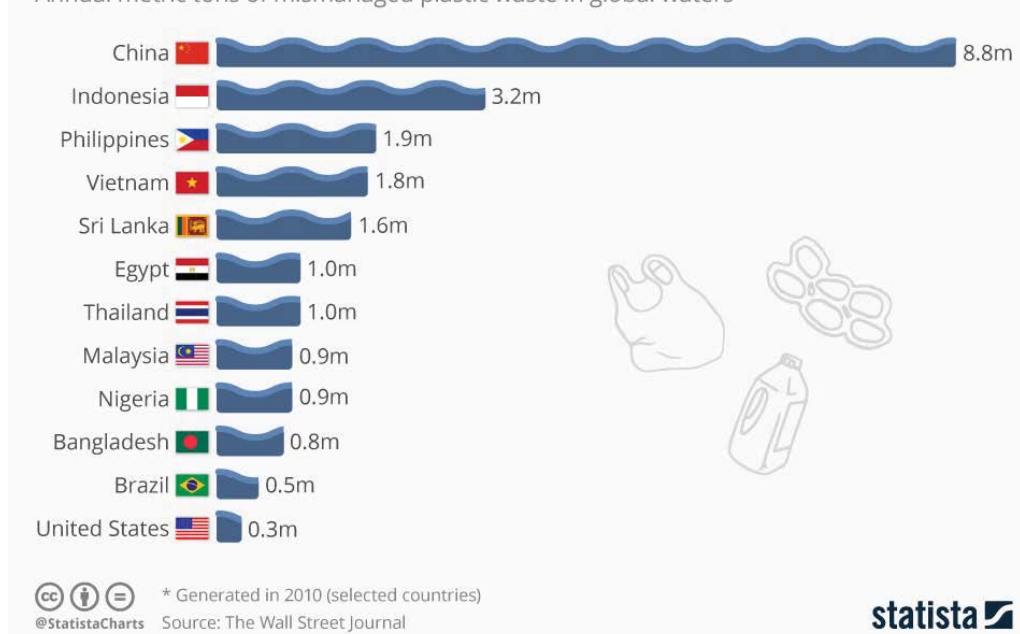
Table 1: World Plastics Output and World GDP (Annual changes, %)

	2012	2013	2014	2015	2016	2017
World Plastics Output	3.2	3.8	4.0	3.5	4.0	3.9
World GDP	2.5	2.6	2.8	2.8	2.5	3.1

Source: Plastics Europe, World Bank

Figure 1: The Countries Polluting The Oceans The Most

Annual metric tons of mismanaged plastic waste in global waters*



Source: The Wall Street Journal, accessed 18 Jun 2019

Extract 1: Plastics – from friend to foe

I remember as a kid getting potato chips in a box, with a bag inside, and getting deodorant in a steel spray can. Now, I get both in plastic. Have you ever stopped to ask, why do we use so much plastic, especially in packaging? The answer depends on the type of packaging, but one overriding answer is that plastic is more resource-efficient than its competing materials. In other words, it takes less energy and materials to do the job. Less energy means less money, and less money means that it is often the desired choice for a given good.

With plastic and other materials, we get waste. Some of it we recycle and most of it we do not, or cannot. In today's world of knee-jerk reactions, banning plastic packaging items altogether requires careful thinking, especially as it relates to climate impacts. As with most sustainability questions, the simplest answer is often incorrect, environmentally speaking. The correct answer will depend on a number of factors — do we need to use the item in the first place, are there ways to use less of it, and are the alternatives really better?

Adapted from <https://www.greenbiz.com/> 18 Sep 2018

Extract 2: Price of plastic falls as demand in China slows

The prices of commonly used plastics have fallen sharply since last summer, as a surge in supply from new plants coming on stream in the US has met flagging demand growth, particularly in China. The fall in prices of plastic is putting pressure on chemicals producers, which feed plastic-producing companies with the necessary raw materials for plastic production.

Adapted from <http://ft.com/> 04 Mar 2019

Extract 3: Adverse Effects Of Plastic Bags On Land

Plastic shopping bags represent a large part of plastic pollution on land. Single use plastic bags are easily blown by wind and carried long distances before getting stuck in trees or going into storm drains. If plastic bags do end up in storm drains they are carried out to sea or they contribute to clogging them. Clogged storm drains can lead to flooding during large rains and create big areas of standing water, which are breeding grounds for disease carrying insects, like mosquitoes.

Source: <https://greentumble.com/> accessed on 18 Jun 2019

Extract 4: Cut use with mandatory tax

A Straits Times online poll had more than 75 per cent of over 4,700 respondents supporting a plastic bag tax. But many others spoke out vehemently against it on social media. Plastic bags should be given out for free, detractors say, for two main reasons: The bags are needed for bagging trash; and the lower-income group may be adversely affected by such a tax. If the bags are not given out for free, people may simply throw pollutive food waste directly into the common chute, turning it into a hot spot for cockroaches and other pests, they claim.

But as Mr Louis Ng, an MP for Nee Soon GRC, points out, a plastic bag tax is not a plastic bag ban. People would still be able to get bags for their trash. He said: "Many people forget that the first step of the 3Rs is to reduce... If people are charged for plastic bags, they may try to reduce the number of bags they get at the counter."

Moreover, not all trash needs to be bagged. "If we separate recyclables from organic food waste, we will find that most of the waste would go into the recycling bin - which you don't need to bag," said Mr Tay, executive director of Zero Waste SG. In the long run, it is vital to help consumers recognise that the slight inconvenience is a small price to pay for the sake of the environment.

On how lower-income groups will be affected by a plastic bag tax, experts say it depends on how much the levy is. At 10 cents per bag, calculations by Zero Waste SG show that the surcharge would make up just 0.35 per cent of the annual income of a household living in a one-or two-room Housing Development Board flat.

Adapted from <https://www.straitstimes.com/> accessed on 20 Jun 2019

Extract 5: Winners and losers of plastic ban

Supermarkets and other retail outlets in Kenya are among the biggest beneficiaries of a ban on plastic bags, which took effect on Monday. The outlets are currently selling to their customers the alternatives that include canvas bags creating a new revenue stream. Since the ban, each outlet has been selling the shopping bags from US\$0.05 for the light canvas bags to US\$0.50 for the heavy canvas bags. And with hundreds of customers thronging into the retail outlets every day, the canvas bags are becoming a cash cow for the outlets.

In March, New York became the second state to ban plastic bags as a way to protect the environment. Far from weening New Yorkers off hazardous single-use plastics, the ban may actually be encouraging them to instead use thicker garbage bags. A study from the University of Sydney found that while plastic bag ban got rid of its target, the ban did not eliminate people's need for plastic bags: They still needed something to line their garbage cans or pick up after their pets. Prior to bag ban, this could mean just reusing the bags you carried your groceries home in. After the ban, folks turned to purchasing garbage bags, which are much more plastic-intensive. The study found that after the imposition of the bag ban, sales of small garbage bags increased by a full 120 percent.

Adapted from <https://www.newtimes.co.rw/> 30 Aug 2017, <https://reason.com/> 11 Apr 2019

Questions

- (a) (i) Using Table 1, compare the growth in world plastics output and growth in world GDP. [2]
- (ii) The US and China are the world's two largest economies. Suggest a policy that could explain the disparate data on **mismanaged plastic waste** in these two countries as shown in Figure 1. [1]
- (b) Using Extract 1 and a relevant concept or diagram, explain how, over the past decades, plastics became a 'friend' to:
- (i) profit-maximising firms; [3]
- (ii) an economy trying to achieve potential economic growth. [3]
- (c) Using Extract 2 and a demand and supply diagram, explain the fall in price of plastics. [4]
- (d) (i) Define price elasticity of demand (PED). [1]
- (ii) Using Extract 4, explain the likely PED value of a plastic bag. [2]
- (e) "In the long run, it is vital to help consumers recognise that the slight inconvenience is a small price to pay for the sake of the environment." (Extract 4) [2]
- Explain whether the above is a positive or normative statement.
- (f) Explain how the use of plastic bags could bring about allocative inefficiency and comment briefly on the likely extent of such an inefficiency in the future. [7]
- (g) With the use of a diagram and with reference to Extract 5, explain and comment on the likely effects on the market for canvas bags when a ban on plastic bags is imposed in Kenya. [8]
- (h) With reference to case materials and/or your own relevant knowledge, discuss whether public education on the harmful effects of plastic pollution is effective in correcting the market failure it creates. [12]

[Total: 45 marks]

Question 2: Economic Challenges and Opportunities for Australia, Vietnam and Spain

Figure 2: Australia's Inflation Rate

	2016 Q2	2016 Q3	2016 Q4	2017 Q1	2017 Q2	2017 Q3
Inflation Rate (%)	1.0	1.3	1.5	2.1	1.9	1.8

Source: Reserve Bank of Australia

Extract 6: Is Australia's Employment Situation Improving?

Australia's unemployment rate has fallen to a four-year low, with the labour market recording 12 straight months of employment gains – its longest stretch since 1994.

Figures show the unemployment rate fell to 5.5% in September, its lowest rate since March 2013, as the government's National Disability Insurance Scheme contributes to a surge in health jobs. Other big services sectors such as education, retail, accommodation/tourism and transport had added nearly 400,000 new jobs over the past year. This is a significant turnaround from a few years ago where the downturn in mining led to the loss of jobs in both the mining industry and industries that are involved in the processing of the mining output. The fall in Australia's key exports led to the government pouring funds towards stimulating investment into the Australian economy.

HSBC chief economist Paul Bloxham said businesses were reporting a sharp jump in their concerns about being able to find "suitable labour", which is a sign that the labour market is tightening and wages may finally start facing modest upward pressure over the next 12 months. "We expect to see at least another 250,000 jobs added over the coming year," CBA senior economist Michael Workman said. "The unemployment rate, now at 5.5%, is forecast to move closer to the 5% level." The employment minister, Michaelia Cash, welcomed the employment figures, saying they proved the Coalition's policies were pro-growth.

However, critics are quick to point out that unemployment rate has remained fairly unchanged since the election of the current government at 5.5 per cent despite the creation of jobs as many Australians are without the requisite skills for the modern Australia economy. They are calling for the government to provide more resources to vocational skills training, school education and reducing university fees.

Adapted from The Guardian, 19 Oct 2017

Extract 7: Vietnam benefits from US-China Trade War

Foreign direct investment in Vietnam climbed 9.1% in 2018 to reach \$19.1 billion, the government reports, marking a sixth straight annual record as capital keeps flowing into one of Southeast Asia's fastest-growing economies. Industries such as apparel have been moving production out of China and into Vietnam looking to escape the higher taxes by the U.S. on Chinese exports. A prolonged trade war is expected to accelerate this shift. In addition, apparel companies are shifting their production out of China to countries like Vietnam due to its rising labour costs, making Vietnam the world's third largest apparel exporter. Apparel accounts for about 10% of Vietnam's exports.

Vietnam is Asia's biggest beneficiary of the Sino-U.S. trade war, according to Mizuho Research Institute, which estimates the effect will be a 0.5 percentage point boost to its real

gross domestic product. Vietnamese real GDP growth is estimated at 7.08%, according to government data.

The central government approved many investment projects last year, including the Hanoi "smart city" project, in which Japanese trading house Sumitomo Corp. takes part, as well as liquid crystal display and camera facility investment by South Korea's LG group in the North-Eastern city of Hai Phong. South Korea's Samsung Electronics accounts for roughly 25% of Vietnam's overall exports by value.

However, with the growth of the garment and electronics industry in Vietnam comes with it a cost to the environment. Research has shown that garment industry is the 2nd most pollutive industry globally, using up precious natural resources and creating a lot of waste products that dirty the land, water and air. Environmental groups are calling for the Vietnamese government to do more to mitigate the environmental effects of the foreign investment. The rapid growth of exports has also caused a widening income gap between those in export-related industries and those who primarily cater to the domestic market.

Adapted from Nikkei Asian Review, 10 Jan 2019

Extract 8: Spain's unemployment falls without an active government

We are continually told that every country must have an activist government that intervenes with a range of policies to achieve its economic goals. No economy or society can be allowed to just bumble along by itself, the firm smack of political control is necessary for the world to continue to turn on its axis. This is not really what the empirical evidence tells us of course. Spain has not really had a government for the past 10 months and yet it is expected to be one of the fastest-growing Eurozone economies this year. Spain's central bank expects the country to expand by 3.2% this year, among the most robust growth rates in Europe, which has created more jobs. And as a result the unemployment rate has just fallen to 18.9%. While inflation is -0.2%, it is an improvement from -0.5% a year ago.

As more Spaniards have gone back to work, they have been spending more, boosting consumer spending and further accelerating economic growth. Spain has been expanding since the economy returned to growth in 2013 after a deep recession.

In addition, the growth may spark off higher migration to Spain in search for job opportunities. While generally welcoming to migrants, some are worried that these migrants may steal jobs from the locals due to their lower asking wage. However, some economists are more optimistic, citing empirical evidence that having an increased inflow of migrants can bring about faster growth.

However, analysts are cautious about the optimism as the better than expected performance is due to the global economic recovery which has led to more tourists in Spain and increasing demand for Spain's exports. Robust growth may bring with it the harms of high inflation. Without a government, Spain is ill-equipped to deal with any potential recessions and political instability would affect its long-term growth prospects.

Adapted from Forbes.com, 27 Oct 2016

Questions:

- (a) With reference to Figure 2, describe what has happened to the rate of inflation and price level in Australia. [3]
- (b) Explain 2 possible reasons why governments aim to achieve the goals of low unemployment and price stability. [4]
- (c) (i) With reference to Extract 6, explain the causes of unemployment in Australia. [4]
- (ii) Discuss whether the implementation of policies with regard to training and education will be sufficient in further reducing the unemployment rate in Australia. [8]
- (d) “Industries such as apparel are... looking to escape the higher taxes by the U.S. on Chinese exports” and “... shifting their production out of China to countries like Vietnam due to its rising labour costs” (Extract 7). [7]
- Explain how the abovementioned events have impacted the living standards of the residents of Vietnam.
- (e) Extract 8 tells us that Spain’s economy grew without a government. Explain how Spain was able to do so and comment on whether there is a need for an activist government in order to ensure sustainable growth. [7]
- (f) With reference to the case material and/or your own knowledge, discuss the factors that a government should consider when deciding on the policies to achieve its economic goals. [12]

[Total: 45 marks]

~End of Paper~



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Suggested Answers w Examiners' Comments

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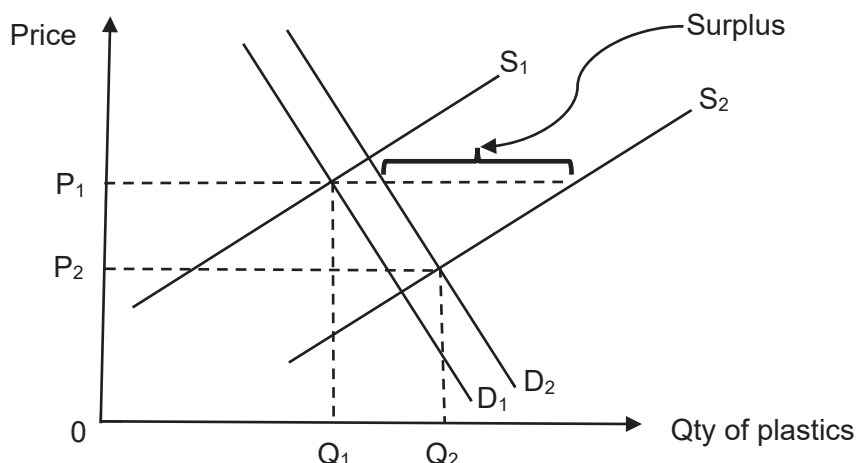
The number of marks is given in brackets [] at the end of each question or part question.



Question 1: Love-Hate Relationship with Plastics

(a)	(i)	Using Table 1, compare the growth in world plastics output and growth in world GDP.	[2]
		<u>Suggested Answer:</u> Similarity [1]: - Both were positive throughout the period. Difference [1]: - Growth in plastic output exceeded the GDP growth throughout the period.	
	(ii)	The US and China are the world's two largest economies. Suggest a policy that could explain the disparate data on mismanaged plastic waste in these two countries as shown in Figure 1.	[1]
		<u>Suggested Answer:</u> Any policy that suggests the US disposes of much less mismanaged plastic waste [1]: (i) Aggressive promotion of recycling efforts (ii) Strict rules against indiscriminate disposal of plastic waste	
(b)		Using Extract 1 and a relevant concept or diagram, explain how, over the past decades, plastics became a 'friend' to:	
	(i)	profit-maximising firms;	[3]
		<u>Suggested Answer:</u> <u>Suggested Answer:</u> <u>Profit = Total Revenue – Total Cost</u> [1m for identification of concept] Plastics which is more resource-efficient is a cheaper alternative to other packaging materials. <u>Firms which switched to plastic packaging materials would enjoy lower cost of production, ceteris paribus.</u> [1] Hence, plastics became a friend to profit-maximising firms as given <u>unchanged total revenue and lower total cost, firms were able to earn higher profits</u> [1] over the past decades since Profit = Total Revenue – Total Cost. <u>Alternative Suggested Answer</u> <u>Concept: Marginalist principle</u> Assume firms are rational profit maximisers. They will weigh the marginal benefit (MB) against the marginal cost (MC) in making rational decisions and <u>maximise profit by producing the output level when MC = MB.</u> [1] Plastics which is more resource-efficient is a cheaper alternative to other packaging materials. <u>Firms which switch to plastic packaging materials enjoy lower cost of production [1] and lower marginal cost (MC).</u>	

		At the original quantity of output, <u>MB exceeds MC</u> and <u>additional unit of output adds to the profits</u> . <u>To increase profits to the maximum, the firms increase the quantity of output until new MB = new MC</u> . [1]	
		Hence, plastics became a friend to profit-maximising firms as they switch to plastics and are able to enjoy more profits.	
	(ii)	an economy trying to achieve potential economic growth.	[3]
		<u>Suggested Answer:</u> <u>Suggested Answer:</u> <u>Concept</u> : Long Run Aggregate Supply/ Production Possibility Curve <u>LRAS</u> is the total output firms in an economy can produce when it is at full employment. [1] OR <u>Concept:</u> Production Possibility Curve (PPC) A <u>production possibility curve</u> (PPC) shows the maximum possible combinations of 2 goods an economy can produce when all resources are fully and efficiently employed. [1] As plastic is more resource-efficient than other packaging materials, many firms switched to plastic packaging. This <u>increased efficiency in their production processes</u> which <u>freed up resources that can be used to produce more other goods and services</u> . [1] An <u>increase in the productive capacity of the economy</u> and a <u>rightward shift in the LRAS (or PPC)</u> resulted [1] <u>and potential growth ensued</u> . Hence, plastics became a friend to an economy trying to achieve potential growth.	
	(c)	Using Extract 2 and a demand and supply diagram, explain the fall in price of plastics.	[4]
		<u>Suggested Answer:</u> Increase in supply [1]: - 'Surge in supply from new plants' implies that more output is being produced. At each price, plastic producers are willing and able to sell more plastics. Increase in demand [1]: - Demand for plastic is growing slowly particularly in China who is presumably a dominant consumer of plastic given its huge economy and relative high growth rate. Hence, at each price, there is now a slower rise in quantity demanded for plastics. <small>Islandwide Delivery Whatsapp Only 88660031</small> Price adjustment process [1]: - At original price, OP_1 , there is now excess supply. Downward pressure on price occurs as producers attempt to clear their unsold inventories. New equilibrium price stable at OP_2 , where $Q_d = Q_s$ once again. Diagram [1]	



Note: PED/PES analysis not required due to limited marks available.

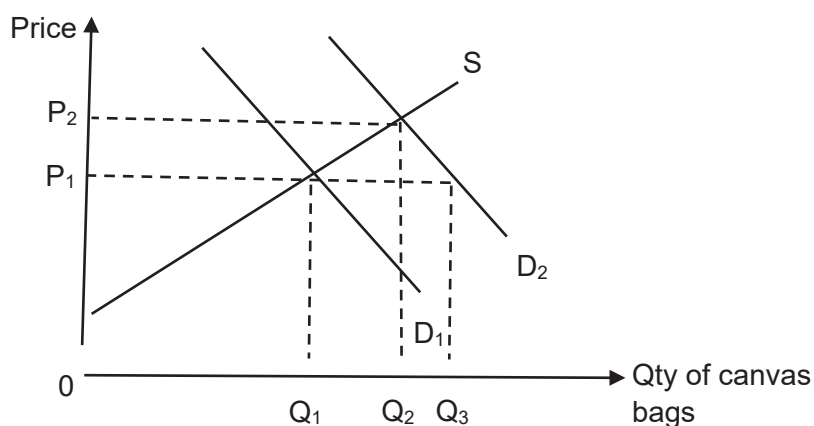
(d)	(i) Define price elasticity of demand (PED).	[1]
	<p>Suggested Answer: PED refers to the degree of responsiveness of <u>quantity demanded</u> for a good to a change in <u>its</u> own price, <u>ceteris paribus</u>.</p> <p>Note: No mark awarded without underlined key words. No formula needed.</p>	
	(ii) Using Extract 4, explain the likely PED value of a plastic bag.	[2]
	<p>Suggested Answer: Likely to be less than one. [1] Even at 10 cents per bag, the charge will only make up 0.35% of annual income of a low-income household in Singapore. Since the <u>price of plastic bags takes up only a small proportion of households' income</u>, <u>many households will be able to bear the increase in the price of plastic bags, leading to a less than proportionate decrease in quantity demanded of plastic bags, ceteris paribus.</u> [1]</p> <p>Note: PED value of plastic bag will be even lower in the eyes of an average Singapore household.</p>	
(e)	<p>"In the long run, it is vital to help consumers recognise that the slight inconvenience is a small price to pay for the sake of the environment." (Extract 4)</p> <p>Explain whether the above is a positive or normative statement.</p>	[2]
	<p>Suggested Answer: The above is a <u>normative statement</u> [1] as it is based on the <u>opinion</u> (or <u>value judgement</u>) of the <u>author of the article</u>. Whether it is <u>vital or not</u> could be <u>debatable</u> among policymakers as well as the public and the statement <u>cannot be objectively verified</u> to be true or false by <u>examination of facts</u>. [1]</p>	

(f)	Explain how the use of plastic bags could bring about allocative inefficiency and comment briefly on the likely extent of such an inefficiency in the future.	[7]	
	<p>Suggested Answer:</p> <p>Explain Allocative Inefficiency [5]</p> <ol style="list-style-type: none"> 1. Establish Q_p ($MPB = MPC$) in order to maximise private welfare. 2. Introduce negative externality (Ext 3) <ul style="list-style-type: none"> – 3rd party (party not involved in the consumption of the good/service) e.g. Households living near flood-prone area – Monetise the external cost e.g. loss of property and lives due to the flood caused by clogged drains. 3. Establish Q_s ($MSB = MSC$) in order to maximise social welfare. 4. As $Q_s < Q_p$, there is hence an overconsumption of plastic bags. Society over-allocated resources into the production of plastic bags for consumption. 5. DWL = shaded area. <p>Comment [2]:</p> <ol style="list-style-type: none"> 1. Immediate future <ul style="list-style-type: none"> – From Table 1, continued world economic growth will mean higher consumption of plastics. Hence, there is likely a greater MEC for additional plastic bag consumed due to the increased severity of flooding, etc. 2. Longer term effects <ul style="list-style-type: none"> – If global awareness programmes are successful in reducing plastic bag consumption, DWL might stop growing or even start to diminish over time. <p>Note: Any other reasonable comment will be accepted, there is no need to consider immediate vs long term future.</p>		
(g)	With the use of a diagram and with reference to Extract 5, explain and comment on the likely effects on the market for canvas bags when a ban on plastic bags is imposed in Kenya.	[8]	

Suggested Answer:

Canvas bags and plastic bags are substitutes as they satisfy similar wants. [1]

A ban on plastic bags will lead to increase in demand for canvas bags - at each price, the quantity demanded for canvas bag will increase due to increased willingness and ability to buy them by consumers. [1] Demand curve shifts from D_1 to D_2 . Assume that there is no change in the supply of canvas bags.

Diagram [1]

At original equilibrium price of canvas bags, there is now a shortage ($Q_3 > Q_1$). Consumers will bid up the prices of canvas bags in order to incentivise higher output produced. Such upward pressure on price will eventually bring forth a new equilibrium price at P_2 , whereby $Q_d = Q_s$ [1] at Q_2 . Hence, there will be a rise in equilibrium price and quantity of canvas bag when the ban on plastic bags is imposed. [1]

Comments [3]:

- In the long run, demand for heavy canvas bags may fall as consumers are unlikely to continue to demand for them after having previously bought them for their use. Hence, the overall change in the price of the heavy canvas bag will depend on the overall increase in demand in the long run. If there is a net increase in demand, there will still be a rise in price of the heavy canvas bags.
- The above also assumes that there is no change in supply of heavy canvas bags. Given the increased scale of production to meet rising demand, producers may be able to reduce the cost per unit of canvas bag, leading to a rise in supply. This may therefore exert downward pressure on the price of heavy canvas bags.

(h)

With reference to case materials and/or your own relevant knowledge, discuss whether public education on the harmful effects of plastic pollution is effective in correcting the market failure it creates.

[12]

Suggested Answer:**Introduction**

Public education is one policy which could help correct market failure. Due to various reasons, implementing public education may not be effective in correcting market failure caused by plastic pollution.

Body

Thesis – Public education is effective in correcting market failure:

Educating the public about the harmful effects of plastic pollution will be useful in helping to correct the market failure. As consumers do not fully appreciate the harm that their own consumption of plastic brings, they tend to overconsume them. For example, the microplastic pollution due to dumping of mismanaged plastic into the ocean gets ingested by marine life. In turn, human beings, most of whom would also be the very ones dumping plastic into the ocean themselves, consume such marine life. Overtime, the accumulation of microplastic in the human body may lead to organ damage. Due to imperfect information about the true marginal private cost (MPC_{true}) of consuming plastics, the perceived marginal private cost ($MPC_{\text{perceived}}$) is lower than the true marginal private cost of consuming plastic. As a result, if left to free market forces, the actual consumption of plastic would occur where $MPC_{\text{perceived}} = MPB$. This actual consumption of plastic is higher than the socially optimal level of output where $MSC = MSB$ (assuming no externalities). Hence, to reduce overconsumption caused by imperfect information, educating the public may reduce the consumption of plastic as consumers aim to maximise their welfare, thereby reducing the extent of market failure (smaller DWL).

Anti-thesis – Public education may not be effective:

#1: Does not internalise MEC

Given the nature of consumers to maximise only their self-interest, public education would inherently fail to incentivise consumers to internalise the negative externalities caused. As such, there remains an over-consumption of plastics in the society's point of view. Market failure remains, albeit to a smaller degree.

#2: Myopic nature of consumers

Even if consumers know about the harm microplastic is causing to their own bodies, they may not reduce their consumption of plastic to the desired level. Organ failure may take years or decades to happen and consumers, not having felt any immediate and significant negative impact on their bodies, are unlikely to reduce their consumption of plastics.

#3: Inaccurate/Imperfect information

Scientific studies on the harmful effect of plastic ingestion on the human body remains debatable. With unconvincing serious health impact, consumers may place little notice on such danger and not reduce their consumption of plastic. Market failure remains uncorrected.

Evaluation/ Conclusion

Public education can, at best, remove imperfect information that consumers possess in their consumption of plastic, thus bringing consumption level down. It does not, however, make the consumer internalise the negative externalities created, thereby causing the continued existence of market failure. It is most

likely that plastic consumption will not be reduced significantly due to the overwhelming low-cost convenience it brings to consumers around the world, with or without the knowledge of the harm it may cause the human body in the very long term.		
Level	Knowledge, Application, Understanding & Analysis	
L3 (6 – 9)	Well-developed answer that covered both perspectives. Sound economic arguments made for convincing response to the well-understood question.	
L2 (3 – 5)	For a balanced answer which lacked sufficient economic reasoning/elaboration of points raised. For example, answer did not explain how public education helps to correct market failure through provision of more information to the consumers. OR Well-developed one-sided answer.	
L1 (1 – 2)	<ul style="list-style-type: none"> - Shows some knowledge - Meaning of question not properly grasped - Basic errors of theory - Inadequately explained - A few valid points - Answer mostly irrelevant or inaccurate 	
E2 (2 – 3)	Reasoned judgement based on sound economic analysis/justification.	
E1 (1)	Unsubstantiated judgement.	
		[Total: 45 marks]

Question 2: Economic Challenges and Opportunities for Australia, Vietnam and Spain

(a)	With reference to Figure 2, describe what has happened to the rate of inflation and price level in Australia.	[3]
	<p><u>Suggested Answer:</u></p> <p>The inflation rate is increasing [1]. The general price level is increasing at an increasing rate from 2016 Q2 to 2017 Q1 [1] and increasing at a decreasing rate from 2017 Q2 to 2017 Q3 [1].</p> <p>OR</p> <p>The inflation rate is increasing [1]. The general price level is increasing [1] at an increasing rate from 2016-2017 [1].</p>	
(b)	Explain 2 possible reasons why governments aim to achieve the goals of low unemployment and price stability.	[4]
	<p><u>Suggested Answer:</u></p> <p>Governments want to achieve low unemployment because of the impact to the government budget. If they are able to reduce the unemployment rate, the government will be required to spend less in terms of unemployment benefits and in turn are able to receive more tax revenue from the incomes of those who are employed. This will thus improve the government budget position.</p> <p>Governments want to achieve price stability because this can have an impact on economic growth of the economy. If inflation rate is high, there is unpredictability in terms of how the GPL will change and firms will have difficulty predicting their expected returns on investment and thus be reluctant to carry out investment plans. With the cut back in investment, this can result in the fall in AD and NY, ceteris paribus.</p> <p>This will cause the economy to experience negative actual growth.</p> <p>OR</p> <p>If this results in a negative net investment, then the capital stock of the economy reduces, which in turn would cause a fall in productive capacity of the economy and thus a leftward shift of the LRAS curve. This would cause the economy to experience negative potential growth.</p>	
(c)	(i) With reference to Extract 6, explain the causes of unemployment in Australia.	[4]
	<p><u>Suggested Answer:</u></p> <p>It is stated in Extract 6 that there was a downturn in the mining sector, leading to a fall in exports. This would have caused a fall in AD and hence</p>	

	NY, causing firms to employ less labour and thus would have led to cyclical/demand-deficient unemployment. [2]							
	In addition, the extract also mentions that the residents lack the requisite skills for the economy. This would have caused a skills mismatch between the jobs and workers and thus caused structural unemployment. [2]							
	(ii) Discuss whether the implementation of policies with regard to training and education will be sufficient in further reducing the unemployment rate in Australia.	[8]						
<u>Suggested Answer:</u>								
<u>Schematic Plan</u>								
<table><tr><td>Command:</td><td>Discuss</td></tr><tr><td>Content:</td><td>Policies to tackle unemployment</td></tr><tr><td>Context:</td><td>Australia</td></tr></table>			Command:	Discuss	Content:	Policies to tackle unemployment	Context:	Australia
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Context:	Australia							
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<u>Introduction:</u> As seen from b(i) there is both cyclical and structural unemployment. The problem of cyclical unemployment is being addressed through the creation of jobs in various sectors as stated in the extract. However, the structural unemployment issue is not being addressed.								
<u>Thesis: Implementing the policies would be sufficient</u> If the government were to implement education policies to facilitate learning and training, the unemployed workers will pick up new skills which enable them to fill the available jobs in the economy. This will reduce the structural								

	<p>unemployment issue and help reduce the overall unemployment rate. In addition, by going for training, workers become more productive which increases the maximum amount of goods and services Australia can produce and thus causes the LRAS to shift to the right and bring about potential growth. Since such a change in policy can help to bring about the attainment of other macroeconomic goals, thus implementing the policies would be effective in reducing the unemployment rate.</p> <p><u>Anti-thesis: Implementing the policies would not be sufficient</u></p> <p>Implementing the policies would only serve to alleviate the structural unemployment issue but does not address the demand-deficient unemployment issue. The government has undertaken measures to stimulate investment which would have increased AD and thus increased the RNY. This would in turn result in an increased employment of labour and thus reduce the demand-deficient unemployment. As such the Australian government could consider further increasing the allocation of resources towards stimulating investment or consider an alternative policy such as to lower interest rates to stimulate investment and consumption in order to bring about growth and thus increase in the employment of labour, reducing the cyclical unemployment.</p> <p>Education and training policies does not guarantee effectiveness as it depends on the receptiveness of workers towards training and picking up new skills. If the government provides funding but the workers do not actively learn, the acquisition of skills may be inadequate or at a level which is insufficient for the firms looking for suitable labour.</p> <p><u>Conclusion/Synthesis:</u></p> <p>Even though jobs are being created, the unemployment rate has remained fairly unchanged. This is due to the skills mismatch between the jobs available and the unemployed. Structural unemployment is the main unemployment issue that Australia is facing and this is causing wage pressures which if not addressed, would cause Australia's goods and services to lose export competitiveness. As such the government should implement the policies. However, there is still cyclical unemployment in the economy and thus the government would need a combination of policies to effectively tackle the unemployment issues.</p> <table><tr><th><u>Level (Marks)</u></th><th><u>Knowledge, Understanding, Application and Analysis</u></th></tr><tr><td>L2 (4-6)</td><td>Well-developed analysis of the reasons for the implementation of the policies on education and training.</td></tr><tr><td>L1 (1-3)</td><td>Under-developed analysis of the reasons for the implementation of the policies on education and training.</td></tr><tr><td colspan="2"><u>Evaluation</u></td></tr><tr><td>E2 (2)</td><td>Judgment made, supported by elaboration</td></tr><tr><td>E1 (1)</td><td>Judgment made but without elaboration</td></tr></table>	<u>Level (Marks)</u>	<u>Knowledge, Understanding, Application and Analysis</u>	L2 (4-6)	Well-developed analysis of the reasons for the implementation of the policies on education and training.	L1 (1-3)	Under-developed analysis of the reasons for the implementation of the policies on education and training.	<u>Evaluation</u>		E2 (2)	Judgment made, supported by elaboration	E1 (1)	Judgment made but without elaboration	
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(d)	"Industries such as apparel are... looking to escape the higher taxes by the U.S. on Chinese exports" and "... shifting their production out of China to countries like Vietnam due to its rising labour costs" (Extract 7).	[7]												

	Explain how the abovementioned events have impacted the living standards of the residents of Vietnam.	
	<u>Suggested Answer:</u> Living standards refers to the well-being of an average person in the economy. It consists of material and non-material aspects. With the changes in the global economy such as the US-China trade war, this has brought about impacts to economies around the world like Vietnam. With US imposing tariffs on Chinese exports, firms have moved its production out of China and into Vietnam. Firms have also moved out of China due to the increasing labour cost and into Vietnam in order to lower costs and maximise profits. These changes result in an increase in FDI into Vietnam and this will increase investment and thus AD for Vietnam. Ceteris paribus, this will increase the real national income for Vietnam. Assuming the percentage increase in population is less than the percentage increase in real GDP, this will lead to a higher real GDP per capita. A higher real GDP per capita indicates higher purchasing power and thus households can enjoy more goods and services, leading to an increase in material standard of living. In terms of non-material living standard, which measures the quality of life, it is mentioned in the extract that there is an increase in the amount of pollution in Vietnam due to the pollutive nature of the textile and electronics industries. With a higher level of pollution, this will lead to households having poorer health which could result in lower life expectancy and thus a fall in non-material standard of living. Overall, it is likely that the changes in the global economy would lead to a rise in the living standards of the residents of Vietnam as the pollution is likely to be contained within certain areas and not widespread.	
(e)	Extract 8 tells us that Spain's economy grew without a government. Explain how Spain was able to do so and comment on whether there is a need for an activist government in order to ensure sustainable growth.	[7]
	<u>Suggested Answer:</u> The improvement in the economic performance is due to the recovery of the global economy which would have increased household income for foreign households, leading to an increase in the demand for Spain's exports. With the increase in exports, this will increase the AD and in turn lead to higher RNY via the multiplier effect, ceteris paribus. The increase in RNY, estimated at 3.2% growth, leads to firms employing more FOP such as labour and thus cyclical unemployment falls, contributing to the fall in unemployment rate to 18.9%. However, while Spain is able to do so without an activist government, the growth in exports may lead to actual growth but not potential growth as seen from the extract about harms of inflation. Firms are unlikely to invest if there is political instability as they may expect low returns on investment. In addition, without any government to regulate the production of goods and	

	services, firms may utilise natural resources at an unsustainable rate which in turn prevents Spain from enjoying sustainable growth. As such, an activist government is needed to implement policies to handle economic crises as well as to promote investment in the economy. Furthermore, the strong demand for exports might not continue in the future. In the event of a global downturn, there might be a fall in demand for Spain's exports and AD might fall. Government intervention might then be required to boost AD to ensure continued economic growth.							
(f)	With reference to the case material and/or your own knowledge, discuss the factors that a government should consider when deciding on the policies to achieve its economic goals.	[12]						
	<p><u>Suggested Answer:</u></p> <p><u>Schematic Plan</u></p> <table><tr><td>Command:</td><td>Discuss</td></tr><tr><td>Content:</td><td>Factors to consider, policies to achieve its economic goals</td></tr><tr><td>Context:</td><td>A government</td></tr></table> <p><u>Introduction:</u> Briefly explain key aspects of decision making and the link to SOL</p> <p><u>Objectives</u></p> <ul style="list-style-type: none">- Main economic goal that the government seeks to achieve <p><u>Benefits</u></p> <ul style="list-style-type: none">- Complementary goals- Effectiveness of policies <p><u>Costs</u></p> <ul style="list-style-type: none">- Trade-offs when using policies- Use of resources <p><u>Constraints</u></p> <ul style="list-style-type: none">- Nature of economy- Budget position <p><u>Conclusion:</u> Take a stand and elaborate on the most important factor</p>	Command:	Discuss	Content:	Factors to consider, policies to achieve its economic goals	Context:	A government	
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	<p><u>Introduction:</u></p> <p>When making a decision on the policies used to achieve its economic goals, a government would need to identify the key economic goal it seeks to achieve, with the larger goal of improving SOL for its residents. In deciding between the range of policies to achieve this goal, the government would need to consider the benefits and costs, be it intended or unintended, as well</p>							

as the constraints that will determine the suitability of the policies for the given economy.

Objective:

Before looking at the range of policies, the government needs to consider the state of the economy and the economic goal that it prioritizes in achieving due to possible trade-offs/conflicts in achieving the goals which would in turn affect the SOL of its residents. For example if a government, such as Spain, seeks to tackle the demand-pull inflation, it would consider using contractionary policies. However, the government, such as Australia, may undertake expansionary policies to grow the economy and create jobs when there is a downturn in the economy so as to improve SOL.

Benefits:

A government would need to consider the benefits of using each policy. This can be analysed from the effectiveness of each policy in achieving the given aim. In order to tackle cyclical unemployment, a government can consider using expansionary fiscal and monetary policies. With the use of fiscal/monetary policy, the government aims to increase components of AD which would in turn lead to an increase in RNY. With the increase in the production of goods and services, firms will employ more factors of production and thus reduce cyclical unemployment. However, the government may choose fiscal over monetary policy if the consumer and business sentiments are poor and thus increasing government expenditure will be more effective in increasing AD.

In addition, the government can consider the unintended benefits that may come with the use of the policies. For example, when the government reduces its interest rates to reduce the cost of borrowing and thus increase the C and I to increase AD, the outflow of hot money can result in the weakening of the currency and thus bring about an increase in the net exports, assuming Marshall-Lerner condition holds. This will enhance the effectiveness of the demand-management policies in achieving economic growth and in turn improve SOL.

Costs:

In the implementation of the policies, especially for fiscal and interventionist supply-side policies, the government will have to allocate its resources and thus incurs an opportunity cost in terms of other areas of spending that are foregone. This can be seen from the Australian example where the government may have allocated its resources towards job creation in various sectors and thus may not have sufficient resources for training and education. The government would then have to decide if they need to reallocate its budget towards training and education in light of the unemployment situation.

In addition, there may be some conflicts/trade-offs in terms of the economic goals as seen from Vietnam's example where the welcoming of FDI for growth has brought about negative externalities in production, which is a trade-off in terms of allocative efficiency. Also seen from Vietnam is that the growth it enjoys is not equally enjoyed by all its residents, where those working in export-oriented industries are seeing a higher increase in income than those not in those industries. This leads a widening income gap and thus greater inequity. Thus the SOL for the average household would only

increase by a bit. Thus the Vietnamese government may need to consider implementing policies such as a system of progressive taxes and transfer payments to reduce the inequity, as well as policies to regulate the production of goods so as to reduce the negative externalities.

Constraints

In the implementation of policies, the government needs to consider the nature of the economy to determine what policies can be implemented. For Singapore, being heavily reliant on trade, the government centres its monetary policy on the exchange rate to control inflation.

The government would also have to consider the feasibility of carrying out the respective policies. For example, the US government has a huge public debt and this restricts its ability to increase government spending to stimulate the economy and thus its main policy tool has been the monetary policy.

Conclusion:

While there are many factors to consider when deciding on the policies, the key consideration has to be the goal that the government seeks to achieve in order to bring about an improvement in the SOL of its residents. Beyond that, the constraints would narrow the type of policy options that the government can consider implementing. From the possible policies, the government could implement policies that complement each other so as to maximise the net benefit from the policies. This can be done through the use of expansionary demand-management policies together with supply-side policies so that price stability is achieved alongside sustained growth. The government would also need to review its policies from time to time as the benefits and costs of using each policy may change over time due to changes in the economy.

<u>Level (Marks)</u>	<u>Knowledge, Understanding, Application and Analysis</u>
L3 (6-9)	Well-developed analysis of costs and benefits of choosing policies framed around the decision-making process. Answer includes clearly explained examples. If students only considered either micro/macro goals, cap at L3 (7m)
L2 (3-5)	Some analysis of costs and benefits, but not clearly framed around the decision making process. Examples may be lacking.
L1 (1-2)	Smattering of valid points
	<u>Evaluation</u>
E2 (2-3)	Judgment made, supported by elaboration
E1 (1)	Judgment made but without elaboration

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[Total: 45 marks]

