

Discuss the extent to which the multiplier and the degree of openness are likely to affect the vulnerability of economies to the impact of the US recession. [25]

Discuss the extent to which the multiplier and the degree of openness are likely to affect the vulnerability of economies to the impact of the US recession [25]

Command	Content	Context
Discuss	Vulnerability of Economies → Economic recession → Unemployment → Fluctuating inflation rates → Volatile exchange rate → BOP deficit	With respect to US recession Compare with multiplier and degree of openness

US Recession

- Fall in economic growth
- Fall in employment
- Fall in income level
- Fall in purchasing power
- Fall in demand for goods and services
- Fall in demand of imports by foreign countries
- Fall in investments overseas due to the lack of capital funds
- Depreciation of currency

Multiplier

- Size affects the extend of impact on RNY
- US recession-> Fall in I and (X-M) of other countries-> Fall in AD
- Lesser fall in RNY for countries with small multiplier
- E.g. Singapore (Explain the small multiplier)
- Reduces vulnerability to fall in RNY in Singapore
- E: Restricts the effectiveness of demand management policies by Singapore to reduce the effect of US recession

Openness of economy

- Open economy might mean increasing dependence on US as a key driver for growth
- US recession-> Fall in I and (X-M) of other countries-> Fall in AD
- Greater dependence on US as key growth driver
- Greater impact on unemployment (Especially for export producing industries)
- E.g. China (Explain on a possible industry affected)
- Greater dependence on US -> Increasing vulnerability to unemployment
- E: Very Open economy might be able to diversify risk and export to other parts of the world that is not affected by the US recession, reduction in the vulnerability)

Nature of economy

- Resource rich economy that is dependent on domestic consumption and investment
- Reduce reliance on US
- US recession-> Fall in I and (X-M) of other countries-> Fall in AD
- E.g. Australia (Explain the rich resources of Australia and how it has decrease reliance on US)
- Nature of economy determines the level of vulnerability
- E: Given that they are resource rich economies-> Would be exporting to US (Large consumer market)-> Short run impact on BOP

Nature of products exported

- Income elasticity of products
- US recession-> Fall in I and (X-M) of other countries-> Fall in AD
- If exports are income inelastic-> Less than proportionate fall in demand for exports-> Fall in export revenue will be lesser-> Lesser impact on BOP
- E.g. Thailand (Rice-> Explain on the income inelastic nature and how the impact on BOP will be lesser)
- Decreases vulnerability of impact
- E: Product dependent and US produces their own domestic crops

- Price elasticity of demand of exports
- US recession-> Depreciation of currency (USD)
- Exports of goods and services to US will be relatively more expensive in terms of USD
- Inelastic demand-> less than proportionate fall in Qdd
- Export revenue will increase
- E.g. Germany (Automobile)
- Decreases vulnerability of US recession
- E: International trade-> Availability of goods and services from all over the world-> Usually price elastic

Ability of the Government to implement policies

- Budget deficits in countries restricts their ability to implement policies
- US recession-> Fall in I and (X-M) of other countries-> Fall in AD
- Unable to implement fiscal policy to reduce the impact of the recession (More vulnerable)
- E.g. Spain/ Greece (Explain the limitations)
- Increases vulnerability
- E: Implementation of other policies (Unable to use exchange rate policy)

L3	For an answer that uses analysis to underpin discussion on different factor that determines the vulnerability of economies.	15-21
L2	<p>An answer that undeveloped discussion on the differences in the vulnerabilities by different economies.</p> <p>Max of 14marks on analysis without discussion on other factors affecting vulnerabilities. OR did not address the question requirement on the vulnerabilities by different economies (Different examples). OR on one-sided discussion on only one impact on vulnerability(Only relating to growth)</p> <p>Max of 11marksOR a case discussion on vulnerability that does not include how the it results in a macroeconomic problem</p>	9-14
L1	<p>Descriptive knowledge of policies, which does not fully address the question.</p> <p>Max of 8marks without relating to US recession</p>	1-8
E2	For an evaluative assessment based on economic analysis (Extent of vulnerability)	3-4
E1	Unexplained evaluative comments	1-2