

JJC H1 PRELIMINARY EXAMINATIONS 2012 - ANSWERS

Case Study Question 1

- (a) (i) **Describe the trend in Base Metal prices between March 2009 and December 2011.** [2]

- Overall there is a rising trend. (1m)
- Prices peaked in around March 2011, after which it fell continuously till Dec 2011. (1m)

- (ii) **Explain possible reasons for the trend above.** [4]

[An explanation to support why there is an overall increase in price]

Rising consumerism and income/affluence has increased the demand for final end products such as consumer goods. Metals is an important factor input in the production of these consumer goods, thus the increase in demand for consumer goods will increase the demand and need for metals as a resource. Production of metals generally lags behind the demand for metals. It takes more time for producers of metals to gather their various factors of production to ready the mines for extraction when demand rises. (2m)

[Another explanation why prices fell]

The effects of the global recession might have reduced income and consumption of consumer goods significantly. This might have caused a fall in demand for consumer goods and the corresponding demand for metals and thus its price. (2m)

- (b) **Using the concept of price elasticity of demand, analyse how a cut in export sales of rare earth metals by China affects the total revenue of consumer-based and precision weaponry firms in US.** [6]

Cut in export sales of rare earth metals will cause a shortage of this metal mineral. This reduction in supply will cause prices of rare earth metals to increase. Such an increase in price will lead to an increase in cost of production for many industries in US producing various consumer goods, such as desktops and smartphones as rare earth metal is an important factor input in these industries. This will shift the supply curve of these industries to the left causing a rise in prices of these products. (2m)

The demand for consumer-based goods such as vehicles, computers, and smart phones is price elastic as there are many substitutes available from foreign producers. For such industries, an increase in price due to higher cost of rare earth metals will lead to a more than proportionate fall in quantity demanded causing total revenue to fall. This is because the rise in revenue from the price increase is less than the fall in revenue from the loss of revenue due to a fall in quantity. Total revenue for producers in consumer based products will fall. (2m)

On the other hand, the demand for weapons is price inelastic due to the lack of substitutes available for the US governments. In these industries the rise in price will lead to a less than proportionate fall in quantity demanded for the products. Total revenue for precision weapon producers will rise. (2m)

2m for explaining how the export restriction affects the rare metal prices and the cost of production for goods.

2m for explaining the impact on TR for consumer based firms with elastic demand.

2m for explaining the impact on TR for precision weaponry firms with inelastic demand.

- (c) Explain why the restrictions on the production of rare earth metals by China can be justified on grounds of efficiency. [4]**

Ext 2, Extraction of rare earth metals often results in substantial environmental costs such as the disposal of large amounts of radioactive materials into the ground and pollution of water resources from the extraction. Hence the extraction of rare earth metals results in negative externalities which are not factored into the cost of production in the extraction process.

Due to the existence of external cost, it leads to the divergence between marginal private cost and marginal social cost. When left to the market, producers only take into account their private cost and benefit, ignoring external cost. At equilibrium, they equate marginal private cost with marginal private benefit. This leads to an output level which is higher than the socially optimum level which occurs where marginal social cost is equal to marginal social benefit. Hence society welfare is not maximized and there is inefficiency in the allocation of resources. Reducing production by restricting the exports of these rare earth metals will reduce the amount of negative externalities and maximize society's welfare and reach an efficient allocation of resources.

(Diagram is not a must but it will be helpful to explain the inefficiency in allocation of resources)

(1-2 marks)	Undeveloped explanation on how the production of rare earth metals causes negative externalities such as pollution to relevant third parties, thus causing market failure
(3-4 marks)	Well-developed explanation on how the production of rare earth metals causes negative externalities such as pollution to relevant third parties, thus causing market failure

- (d) With reference to Extract 3, comment whether rising inflation in UK is due to rising commodity prices. [6]**

As mentioned in Extract 3, a rise in price of commodities would contribute to rising inflation. This is because commodities such as metals and fossil fuel are important input in modern manufacturing and generation of energy. Food grains are also important ingredients for production of food for consumption. Hence a rise in the prices of commodities will increase cost of production for many production processes leading to a fall in profit level. This leads to a fall in aggregate supply causing AS curve to shift to the left. This leads to cost-push inflation.

(Illustration using graph is optional)

However, cost-push inflation in UK in 2011 is not only caused by higher commodity prices. As mentioned in Extract 3, the VAT has increased in January 2011. This has also led to a one-time increase in price level and hence inflation. A weaker pound also means that prices of imports become relatively more expensive in terms of pound. This leads to a higher level of imported inflation.

Besides cost-push inflation, inflation in UK can also be due to demand-pull inflation. A weaker pound causes prices of exports to become relatively cheaper. Assuming that demand for exports is price elastic, this leads to a more than proportionate increase in quantity demanded causing export revenue to rise. As net exports fall, demand-pull inflation also worsens.

Thus inflation in UK in January 2011 is not only caused by rising commodity prices. It is also caused by a weaker pound and the implementation of an increase in value-added tax on goods and services.

(1-3 marks)	For an explanation that shows how rising commodity prices lead to cost push inflation in UK.
(4-6 marks)	For a well-developed explanation on how rising commodity prices and other possible factors can contribute to both cost-push and demand-pull inflation in UK.

(e) Discuss the economic case for US in imposing protectionist measures on Chinese solar panels. [8]

US anti-dumping measures on imported solar power from China can be justified if the Chinese producers are indeed receiving government assistance and selling the solar power below their marginal cost of production. Such assistance can be in the form of subsidies and cheap credit (cheap loans) from the Chinese government. This will enable the Chinese producers to price their domestic producers of solar power out of the market by selling it at a much lower price than them (predatory dumping). This causes the domestic solar power industry in US to face unfair competition which results in a fall in output and employment.

When US impose import tariffs onto Chinese solar panels as a form of retaliation, it will increase the prices and reduce the quantity demanded for these Chinese solar panels. US solar companies can capitalize on this and compete away the market share of Chinese solar panels. This will increase production of US made solar panels and generate profits and employment for US solar firms. It will also help to reduce import expenditure for the US balance of trade position.

Imposing anti-dumping measures such as import tariffs will raise the cost of solar energy and cost of production for related sectors and affect unemployment. When the cost of solar panels increases, it might increase the prices of implementing this kind of clean energy on households, industries and commercial buildings and result in a fall in quantity demand for solar panels. As mentioned in Extract 4, other related sectors such as local installers, engineers and maintenance engineers will suffer from loss of jobs when there is a fall in quantity demand for US made solar panels.

As mentioned in Extract 4, thousands of jobs are expected to be lost as a result of the import tariffs on Chinese solar panels. The overall unemployment will still increase even after taking into account the increase in employment and production in the US solar panel industry due to the import tariff. Hence the original intended objective of protecting employment in the solar panel industry may not even materialize.

In the long run, such protectionist measures will also hurt trade relationships and invite retaliation from China. Retaliation on US exports bound for China will reduce demand for US exports and hurt overall US productions and employment in the long run. Even if China does not retaliate against the US imposed tariffs, less Chinese exports to US meant less economic growth and income for the China economy. Hence, this will reduce the demand for US exports by China.

Protectionism imposed by US may not be justified in this case as the US is only accusing the Chinese of dumping but it is not yet proven that the case is legitimate. Such protectionist measures often results in unintended negative consequences to the economy or other sectors/industries. In the long run, it restricts trade and dampens growth to both imposing countries and their trading partners. The long term solution is to implement appropriate policies that address the root cause of the problem. Therefore, while it derives some benefits in the short run there might be no net gains or even net losses as a result of protectionism.

L1 (1-2 marks)	For a descriptive knowledge that gives the arguments for and against the anti-dumping tariff imposed
L2 (3-5 marks)	For an explanation that uses economic concepts and case material to support arguments for and against the anti-dumping tariff imposed
L3 (6-8 marks)	For a well-developed explanation that gives the arguments for and against the anti-dumping tariff imposed Evaluation of the case for the anti-dumping tariff supported by economic analysis

Case Study Question 2

(a) Describe Singapore's Balance of Payments account between 2008 and 2011. [2]

- Singapore's Balance of Payment account is in a surplus and is generally improving.

(b) Explain whether the evidence from Table 1 is sufficient to account for an improvement in living standards in Singapore from 2008 to 2011. [4]

- Real GDP growth in Singapore is generally positive throughout 2008 to 2011.
- This suggests that people's real income has increased and people have a higher purchasing power. They can consume more goods and services, indicating a better material well-being.
- Population statistics is missing. Real GDP per capita is a better measure because if population growth is higher than the real GDP growth, an average household will consume a smaller quantity of goods and services. Standard of living would not have improved.
- Table 1 does not provide any qualitative statistics like life expectancy which can reflect the qualitative aspect of SOL. If an economy has better healthcare facilities and is less exposed to pollution, the citizens may have a higher life expectancy.

[2m]: explanation for why real GDP growth can reflect an improvement in SOL or/and its limitations.

[2m]: Qualitative aspect of SOL

(c) Explain why MAS may find it difficult to use exchange rate policy to 'juggle inflation pressures with protecting growth amid a faltering global recovery.' [6]

- MAS will allow Singapore dollar to appreciate [CSE: allow gains in the dollar] → lower imported inflation
- BUT, appreciation increases P_x → export earnings may fall
- Fall in X made worst by a faltering global recovery → world demands less of Singapore's exports → SG is export-oriented → fall in X → fall in AD → slow down Singapore's growth
- MAS wants to reduce imported inflation but they need to control the extent to which the SGD is allowed to appreciate so that it does not hurt Singapore's growth

*Students can also explain how a faltering global recovery leads to a depreciation of the SGD → worsen inflation

[3m]: Explain how MAS juggles inflation pressures using exchange rate policy.

[3m]: Explain how the exchange rate policy will affect $X-M$ (2m) and consequently Singapore's growth amid a faltering global recovery (1m).

(d) Explain how austerity measures can benefit the UK economy.**[4]**

- [CSE: Austerity measures aim to reduce fiscal deficit]* → cut G and increase T → ensure that the UK government can repay its debt

#1 Growth

- Builds up business confidence as extract mentioned that firms are holding back investment plans
- Higher business confidence → increase FDI → growth

#2 BOP

- Investors feel confident about the UK economy → more ST capital flows to UK and less ST capital flows out of UK compared to other Eurozone areas → more funds available for consumption → increase C & I → increase AD → growth OR improve UK's capital account → improve BOP

#3 Inflation

- Furthermore, demand for Sterling Pound increases and supply of Sterling Pound falls → appreciation of Sterling Pound → keep down imported inflation as UK is also import-reliant

[2m] for each benefit on UK's economy.

(e) Comment on the extent to which Singapore's Balance of Payments account will be affected by the Eurozone debt crisis.**[6]**

- Balance of Payment account comprises current account and capital account.
- BOP may worsen or go into a deficit due to the Eurozone debt crisis.

Thesis: Singapore's BOP will be affected by the Eurozone debt crisis

- Eurozone crisis – fall in purchasing power of European countries → demand less of Singapore's exports → worsen (X-M) → CA worsens
[CSE: reduced demand for Asian exports, EU is one of the top 5 export destination for Singapore and comprises about 10% of total share of exports]
- Eurozone crisis – high levels of debt → fall in ST capital flows to Singapore → worsen capital account [CSE: Asian economies have reduced access to funding from Europe]
- Eurozone crisis – high uncertainties and reduce demand for exports could discourage FDI

Both CA and KA worsens → BOP worsens and may go into a deficit.

Anti-thesis: Singapore's BOP will not be affected by the Eurozone debt crisis

- [CSE] Increase in regional trade (countries in Asia like China, Indonesia, India) are weathering the Eurozone debt crisis well → continue to grow and buy Singapore's export → CA may not worsen
- [CSE]: The influence of EU has started to decline from 2008 to 2011 – share of exports is falling and by 2011, Singapore's top 4 trading partners are all Asian countries (table 2), namely China, Hong Kong, Malaysia, and Indonesia
- [CSE] A greater reliance on regional banks → more FDI and ST capital flows from Asia to Singapore → KA may not worsen

*Can consider any other reasons that students provide on why Singapore's BOP may not be affected.

Conclusion

- BOP worsens from 2010 to 2011 → Singapore is affected by the Eurozone crisis but BOP is still in a surplus thus the impact on Singapore is limited.

L2	A well-developed two-sided explanation on how the Eurozone crisis may affect and may not affect Singapore's BOP, with reference to data	4 – 6
L1	One-sided explanation on how the Eurozone crisis may or may not affect Singapore's BOP account, with no reference to data.	1 – 3

(f) Discuss the policies that the UK government may adopt to achieve 'strong and sustainable growth' (Extract 6). [8]

To achieve strong and sustainable growth, UK must ensure that it implements policies that can increase AD and LRAS. (students should draw diagram to illustrate sustainable growth)

Policy #1: Expansionary fiscal policy or Supply-side policies

- **Lower income tax rate** from 50% to 40% → increase disposable income and after-tax profits for entrepreneurs → increase consumption (C) and investment (I)
- **Build more infrastructure** → lowers cost of doing business in the UK due to higher efficiency in transport or communications → attract FDI or investments → increase capital stock → increase productive capacity → increase LRAS → potential growth [CSE: leverage on private sector investments]
- Increase C & I → Increase AD → increase in real GDP → actual growth and multiplied increase in NY

Limitations of fiscal/ ss-side policy:

- UK has a high public sector debt equivalent to troubled economies like Portugal and Greece → need the high tax revenue to pay for the public debts → might not be willing to lower tax rates
- Depends on business and consumer confidence

Policy #2: Monetary policy – interest rate policy

- Bank of England (BoE) is keeping interest rates low at 0.5% → low cost of borrowing and opportunity cost of consumption → increase C & I → increase AD → increase real GDP → achieve actual growth and multiplied increase in NY
- Increase I → potential growth

Limitations of interest-rate policy:

- Depends on business and consumer confidence → low interest rates may not increase C & I if business outlook is poor due to Eurozone crisis

- UK could be in a liquidity trap → interest rate was lowered to 0.5% in 2008 after global financial crisis was triggered → cannot lower interest rate further.

Policy #3: Monetary policy – quantitative easing + depreciation of the Sterling

- Increase the money supply in the economy → firms and consumers have more funds to invest and consume → increase C & I → increase AD → increase real GDP → achieve actual growth and multiplied increase in NY
- Increase the money supply of Sterling in the foreign exchange market → depreciation of Sterling → increase (X – M) → increase AD → increase real GDP → achieve actual growth and multiplied increase in NY

Limitations of quantitative easing + depreciation of the Sterling

- Europe is UK's largest trading partner → Europe is facing a debt crisis → may not be able to increase demand for UK's exports despite cheaper prices of imports

Policy #4 – Austerity measures

- To cut public sector debt → UK impose austerity measures → restore confidence in UK's economy and make UK attractive to investors → increase business confidence → increase I → create jobs → create employment → higher income → higher C & I → increase AD → increase real GDP → achieve actual growth and multiplied increase in NY

Limitations of austerity measures

- Lower G and higher taxes → lower C & I → directly lower AD → slow down UK's economic growth

Conclusion:

- High public sector debt → little room for tax cuts and restoring confidence is key because UK must not let itself end up like the Eurozone → continue to attract investments to increase LRAS
- Could continue with austerity measures but must make sure that monetary stimulus is in place so that growth does not fall → ensure increase in AD → supply-side policies are ineffective without sufficient demand

*Students must explain policies that shift both LRAS and AD.

L3	Well-developed explanation on policies that the UK government may adopt, coupled with the limitations of the policies AND evaluates the suitability of the policy by recognising the high debt issue	6 – 8
L2	Explanation of policies that the UK government may adopt, coupled with the limitations of the policies	3 – 5
L1	Descriptive knowledge of the policies that the UK government may adopt	1 – 2

Question 3

- (a) Explain why some goods and services produced and consumed in the market require government intervention. [10]
- (b) Discuss whether the use of subsidies by the government should be restricted to achieving efficiency in an economy. [15]

Answer to part (a)

Government is required to intervene only in the production and consumption of some goods and services where externalities arise and when the market fails to provide public goods.

Public good

- Characteristics of non-rivalry and non-excludability.
- Examples of public good include street lighting, public drainage, flood-control dams, public policing force and defense.
- Non-rivalry \rightarrow MC is zero and for efficiency reason \rightarrow no price is to be charged
- Non-excludable \rightarrow free rider problem
- Public goods will not be supplied by the market. But the presence of positive externalities in consumption leads to government directly providing these goods.

Merit good

- Examples: preventive healthcare services, public housing and education where consumption generates positive externalities.
- Use diagram to explain how underproduction/underconsumption occurs leading to welfare loss

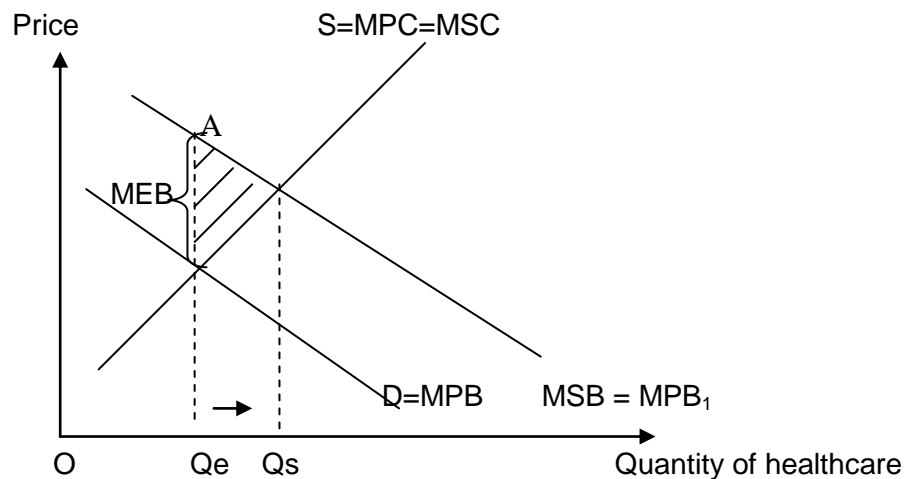


Figure 1

Production or consumption generates negative externalities
 - Examples & use diagram to explain how welfare loss arises.

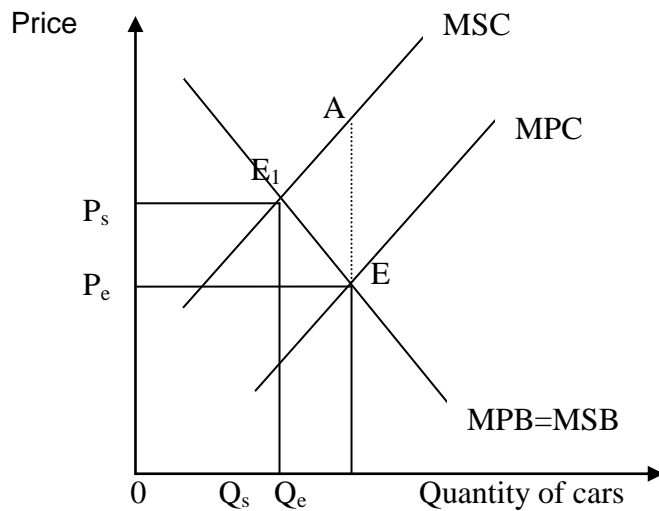


Figure 2

Mark Scheme

L3 (7-10 marks)	Well-developed explanation of 3 aspects with appropriate examples and diagrams used.
L2 (4-6 marks)	Undeveloped explanation of 3 aspects of the question OR 2 aspects that are well-explained.
L1 (1-3 marks)	Descriptive knowledge on the sources of market failure.

Answer to part (b)

Governments' policy of subsidization may not be restricted to efficiency reason as she also aims to achieve other macroeconomic goals and a more equitable income distribution.

(a) Government provide subsidies to merit goods

- Subsidizing consumers an amount equal to MEB and this will help to encourage consumption (use diagram to aid explanation)
- Limitations:
 - (i) It is difficult to estimate the amount of external benefits generated as the value individuals placed on longer life expectancy varies. Hence, an under or overvaluation of external benefits may not lead to efficiency.
- Nevertheless, it is necessary for government to subsidise healthcare to move nearer to optimum level of consumption.
- subsidise producers which help to lower cost of production → raise supply which lower price and encourage consumption
- Limitations :
 - (i) Government may face budget constraint
 - (ii) producers may not pass on the benefit of lower cost to consumers

(b) Other reasons for Subsidisation:

- (i) Government may subsidise skill retraining and upgrading (Singapore)
→ Increase labour mobility and equip workers with the relevant skills needed in the current job market and thereby reduce structural unemployment.

(ii) Governments aim for non-inflationary sustainable economic growth

→ Provide subsidies for R&D work which encourage firms to engage in innovation which may improve production processes or where new and better quality products are developed

→ Raise productivity which increase LRAS

→ Achieving potential growth and price stability

→ Boost exports and raise export revenue leading to rise in AD.

- The rise in both LRAS and AD will help bring about sustainable economic growth.

(iii) Rising oil prices whether due to oil supply hit by Middle East uncertainties or rising demand as global environment is favourable saw many governments like Vietnam; Indonesia and Malaysia continue subsidising energy prices.

This artificially low energy prices helps these oil importing countries to keep cost of production low and thus prevent imported and cost-push inflation.

- Subsidies should be used to attain efficiency and to achieve other aims of the government.
- With respect to the former aim, it may be unwise for governments to subsidise energy prices as it distort the working of the price mechanism and results in excessive usage of energy leading to inefficiency though it helps stabilise prices in an economy.
- Such conflicting objectives involves trade-offs and it could be adopted in the short run if government considers the costs of rising inflation jeopardise economy performance to a large extent.
- Also, subsidisation of any economic activities involved opportunity costs as the funds used for this activity could not be used in others.
- In view of this, the decision in subsidisation involves government weighing the net benefits derived from each activity and also taking into consideration the current state and economic condition of the country which then determines the priorities in which the funds are used.

Mark Scheme

L3 (9-11 marks)	Well-developed explanation of the arguments with examples used appropriately.
L2 (6-8 marks)	Undeveloped explanation of both sides of the argument and max of 6 marks for lop-sided answer.
L1 (1-5 marks)	For an answer that shows descriptive knowledge of how subsidies work to achieve aims of governments.
E1 (1-2 marks)	Mainly unexplained judgment.
E2 (3-4 marks)	Judgment based on analysis.

Question 4

The economic performance of an economy is assessed by her ability to achieve economic growth, low unemployment, price stability and a healthy balance of payment.

- (a) Explain the importance of achieving a healthy balance of payment and sustained economic growth in an economy. [10]
- (b) Discuss the extent to which the threats of globalisation would impact the economic performance of Singapore. [15]

Answer to part (a)

The balance of payments is a record of economic transactions that take place between Singapore and the rest of the world in a year. A healthy balance of payment could arise from the surplus of both current and capital account.

Surplus in the current account

→ Indicates the competitiveness of the country's goods and services in the global economy
 Surplus in the capital account could arise from both short term and long term net capital inflow → implied that the country, like Singapore, has good and well established infrastructure that strengthen her status as a financial hub in Asia Pacific region.

Overall, the rise in net export and investment will rise AD and bring about actual growth. Also, the rise in AD will encourage firms to employ more factors of production as they expand, leading to rising employment. The rise in investment → potential growth and price stability

Sustainable economic growth is reflected by rising real GDP brought about by the increase in both LRAS and AD → rise in real GDP → raise standards of living quantitatively.

As sustainable economic growth is brought about by rising productivity which helps to keep inflation low → boost export revenue and FDI → raise AD and real GDP.

Sustainable economic growth will boost government's tax revenue as consumers spend more on goods and services and producers make more profits → government spend on infrastructural projects, skills training and research programmes → raise productive capacity of the economy

Hence, healthy balance of payment and sustained economic growth are important as they do have a role to play indirectly in helping the economy to achieve other macroeconomic aims.

Mark Scheme

L3 (7-10 marks)	Well-developed explanation of the importance of a healthy BOP and sustained economic growth.
L2 (4-6 marks)	Undeveloped explanation of the importance of a healthy BOP and sustained economic growth OR only one aspect of the answer is well-explained.
L1 (1-3 marks)	For an answer that shows descriptive knowledge of the importance of healthy BOP and sustained economic growth.

Answer to part (b)

The economic performance of an economy is assessed by her ability to achieve the 4 macroeconomic aims which includes low inflation, low unemployment, sustained economic growth and a healthy balance of payment. Globalisation allows freer flow of resources across international border. While it brings benefits to countries, there are threats as well.

Globalisation increases countries like Singapore that is highly dependent on trade vulnerability to external shocks. For example, the global financial crisis in end 2008 that resulted in many economies suffering from slow or negative growth saw the dip in Singapore's export revenue and investment → fall in AD and deter actual growth. Also bring about rising unemployment.

The freer trade flows across international border allows Singapore to gain access to wider international market. This helps boost our exports which raise export revenue. Besides, globalisation saw an influx of FDI explained also partially by the presence of sound economic fundamentals of the Singapore economy. In the short run, the rise in export revenue and investment which boost AD may exert an inflationary pressure as our resources are scarce, which limit the success of our economy as she may loss her comparative advantage in the production and provision of services which lead to foreign firms choosing a low cost country for investment limiting our actual and potential growth. The slow growth in exports and investment will worsen our balance of payment.

Globalisation could erode our comparative advantage quickly. To stay competitive internationally, Singapore has to undergo structural reforms and move to develop new niche areas where comparative advantage lies. These new industries in the biomedical field, digital media, green technology, financial and education services require more highly educated and skilled workers while those retrenched workers in industries where comparative advantage was lost failed to equip with the skills required. Hence, globalisation leads to structural unemployment.

However, there are many factors that influence the economic performance of Singapore. Singapore government has to a relatively large extent play a significant role to help mitigate the adverse effects of globalisation on the economy. Given the nature of the Singapore economy which lack natural resources that results in a high import content, she is subjected to imported and cost-push inflation should energy and commodities prices rise due to rising global demand. Hence, MAS has been tasked to closely monitor the movement of SGD and intervene when necessary to ease inflationary pressure. As trade constitutes almost 4 times her GDP, the government has adopted supply-side policies that includes government spending on infrastructure, subsidising skill training and upgrading and the introduction of the Productivity Innovation Credit scheme aimed to raise productivity to ensure Singapore continues to remain competitive internationally and also provides conducive investment climate to attract FDI that bring about both actual and potential growth.

The speed and ability of the economy to undergo economic restructuring will also determine the extent to which our macroeconomic objectives are impacted by globalisation. Globalisation increases the pace at which comparative advantage could be eroded overtime. Singapore success will be jeopardise unless new niche areas where comparative advantage lies are constantly developed. The development of the two integrated resorts is an illustration of Singapore's diversification strategy to increase her dependency on the service sector for growth and job creation. The ability of Singapore to attract high value added investments depend to a large extent on the presence of sound economic fundamentals like well developed infrastructure, quality labour force, political stability, intellectual property rights and effective government. As our workers are receptive to continuous education and training programme, this help to ensure a ready pool of skilled workers needed by these industries.

Thus, our ability to attract FDI will bring about rise in employment and the transfer of technology and managerial skills help raise productivity leading to potential growth.

The threats of globalisation on Singapore's economic performance are inevitable. But, being a small and open economy, she has successfully ride on the opportunities of globalisation that allows her to source for imports at a lower price and access to a larger overseas market which boost both her trade and investment opportunities. This has been made possible due to her adoption of the right approach to international trade, that is, the adoption of an open door trade policy, the presence of sound economic fundamentals and more importantly, the swift policies' decision by the government to constantly develop new niche areas where comparative advantage lies to ensure that international competitive is maintained. Lastly, it is not merely the commitment of an efficient government but also the co-operative effort of the nation that has allowed the economy to remain resilient to challenges in a dynamic global environment.

Mark Scheme

L3 (9-11 marks)	Well-developed answer that covered all aspects of question asked.
L2 (6-8 marks)	Undeveloped explanation of how threats of globalisation affect Singapore's economic performance and other factors OR Max of 6 marks Threats of globalisation and how they affect Singapore's economic performance are well explained.
L1 (1-5 marks)	For an answer that shows descriptive knowledge of question requirement.
E1 (1-2 marks)	Mainly unexplained judgment
E2 (3-4 marks)	Judgment based on economic analysis