Question 1: Towards sustainable fashion

(a)	With reference to Table 1, what can be concluded about the change in world price of cotton in 2022.	[2]
	 Production increase indicating an increase in supply while consumption fell indicating a decrease in demand resulting in a surplus [1]. Hence overall price of cotton in 2022 fell [1]. Or In 2022, there is a surplus as production is more than consumption [1]. A 	
	surplus result in a downward pressure on price hence overall price of cotton in 2022 fell [1].	
(b)	With reference to Figure 1 and Extract 1, explain one demand and one supply factor that could impact world cotton prices.	[4]
	DD factor: "Shoppers have increasingly opted for alternative fabric" (Extract 1). Polyester, which is a substitute for cotton, is "cheaper and quicker to produce", hence the lower cost of production increases supply of polyester resulting in a decrease in price of polyester [1]. Since polyester and cotton are substitutes, the lower price of polyester (increases quantity demand of polyester and decreases the demand for cotton leading to a decrease in world cotton prices [1]. SS factor: As mentioned in Extract 1, "low prices for corn have pushed farmers in Brazil to plant cotton instead, resulting in a sharp rise in cotton production." This has increased the number of sellers producing cotton since cotton and corn are in competitive supply as they use the same resources for production. This increases the world supply of cotton leading to a decrease in world cotton	
	prices [1].	
(c)	Some governments thus implement programs such as minimum support price to support farmers (Extract 2).	
	Explain how the above price control supports farmers and one possible unintended consequence of the policy.	[4]
	A price floor is a legally established minimum price. Farmers affected are permitted to sell the goods at prices at or above the minimum price. A price floor is only effective if it is set above the equilibrium price (or shown on diagram) [1]. A price floor that is set below the market equilibrium price has no effect at all because the market equilibrium price is still attainable. With the implementation of price floor, price of cotton increase from P to Pf. Quantity demand fell from Q to Q ₁ and quantity supplied increases from Q to Q ₂ . There is a surplus of Q ₁ Q ₂ . Initially the farmers income is 0PEQ. Assuming the government buys back the surplus Q ₁ Q ₂ , the income of farmers increases to $0P_fBQ_2$ [1].	



(d)	(i)	Synthetic material like polyester, for example, should be taxed to reflect its true cost (Extract 3). Explain what is meant by 'true cost' of polyester.	[2]			
		The 'true cost' of a good in a market reflects all costs involved in producing and/or consuming it. The 'true cost' is the marginal social cost (MSC) which is the sum of Marginal Private Cost (MPC) and Marginal External Cost (MEC) [1]. In the production of polyester, the MPC is the costs incurred by the firm eg to purchase factors of production and the MEC is the healthcare cost to third parties, for example people living near the factories that produces polyester, as "it is derived from nonrenewable resources, requires a great deal of energy for extraction and processing and releases significant byproducts" (Extract 3), in the process of production, harmful toxic waste could be released in to the air and water. [1]				
	(ii)	Discuss the appropriateness of UK's government plan to tax polyester to ensure that its 'true cost' has been accounted for.	[8]			
		 Products the appropriate rest of one's government plan to tax polyester to ensure that its 'true cost' has been accounted for. Negative externality in production exists when there are costs borne by third parties due to the production of a good or service, for which they are not compensated. Due to the negative externality in production, the social costs of producing polyester are higher than the private cost (MSC>MPC). The MSC lies above the MPC by a vertical distance equal to marginal external cost (MEC). Assuming no positive externalities, the marginal private benefits (MPB) is equal to marginal social benefits (MSB). In the pursuit of self-interest, the firm considers only its private benefits and private costs when producing polyester. This leads to the market equilibrium output QP, where MPB=MPC. However, the socially optimal output is given by QS, determined by the intersection of the MSB with the MSC. Since QP>QS, the firm over-produces polyester, leading to an over-allocation of resources leading to allocative inefficiency and hence market failure. 				
		MEC- Q _S Q _P Quantity				
		How taxation works to solve market failure The government could impose a tax per unit on production that is equal to the marginal external cost (MEC). An indirect tax on production has the same effect as an increase in the cost of production of the firm. Thus, the firm is forced to internalise the external costs it inflicts on third parties. The firm will				

reduce its output level to the socially optimum output because of the higher cost and lower profits, ceteris paribus.

The free market originally produces at Q_P . The government could impose a tax per unit equals to MEC at Qs. In doing so, the tax forces firms to internalise the external costs caused by the firm. This shifts the MPC curve vertically upwards to MPC+Tax by the amount of tax, which now coincides with MSC. As a result, firms produce at Q_S . Hence, allocative efficient output is achieved, and the initial deadweight loss is eliminated.



Limitations (therefore inappropriateness) of the policy

The main problem of using taxes is a lack of information of how much to tax The damage from pollution is extremely difficult to assess, especially so in monetary terms. An over-estimation or under-estimation of the size of the external cost would lead to over- or under-taxation, which would mean either a less than (due to overestimation) or more than social optimum level of output is produced. However, it is not feasible to use different tax rates for different firms. Each factory produces varying amounts of externality. A newer polyester factory might emit less pollutant due to the use of pollutant abatement technologies. Hence, the MEC caused would be less compared to the older factories. It would be costly and difficult to measure and impose a different tax rate on different firms.

Evaluation

Overall, a tax is appropriate as it targets the root cause of the problem of overproduction of polyester and forces firms to reduce production to the optimal level. Moreover, the tax is also appropriate in the long run, if firms find it too costly to pay taxes for their emissions, they may choose to switch to cleaner methods of production thereby reducing MEC. However, there is limit to which the tax per unit can be increased and a very high tax would hurt the international business competitive of polyester firms and its related products such as clothing in face of stiff international competition from big textile producing countries such as China and India.

					· · · · ·		
		Leve	el of response and descriptors				
		L2	Answers in this level consider how tax as a policy works	4-6			
			and a consideration of the limitations in implementing the				
			policy to achieve allocative efficiency in the market for				
			polyester.				
		L1	Answers in this level show limited understanding of the	1-3			
			workings of the policy and its limitations.	<u>i</u>			
		Eval	uation	10			
		E	For an answer that makes some attempt at evaluation or a	1-2			
			the judgement or base it on enclusion but does not explain				
		Altorn	the judgement of base it on analysis	onsume	re		
		of poly	auve. Negative externality in consumption (the limits are the c vester) is also accentable	Unsume	75		
(e)		In liah	t of the mass production (Extract 3) and changing Gen Z	behavio	our		
``		(Extra	ct 4), discuss the extent to which a fashion firm like Adid	as shou	JId		
		switch	over to manufacturing more sustainable clothing.			[10]	
		Like any other firms, fashion firm like Adidas A main objective is to profit maximise. This means that they will produce at profit maximising output, Qpm, where marginal revenue (MR) = marginal cost (MC). They will then					
		charge the maximum price, Pm, which consumers are willing to pay at Qpm.					
	Whether or not a fashion firm should switch over to manufacturing more						
		sustainable clothing would depend on the potential profits to be gained.					
		Point 1: Adidas should switch to manufacturing more sustainable					
	Point 1: Adidas <u>should switch</u> to manufacturing more sustainable						
	clothing because Gen Z changing behaviour increases demand for sustainable clothing which leads to an <u>increase in profits</u> for firms						
		From Extract 4, there is a change in consumer behaviour towards sustainable					
	clothings especially Gen Z as they "prefer to buy sustainable brands and are most willing to spend 10 percent more on sustainable clothing than fast fashion". These new age consumers demand more sustainable clothing						
		leading to an increase in AR (=DD) from AR ₂ to AR ₄ and MR from MR ₂ to MR ₄					
		curve	respectively. Assuming the firm is pursuing a profit m	naximisi	na		
		obiect	ive, this will result in an increase in output from Q_0 to Q_1 , where	ere MR₁	1 =		
		MĆ. F	irms will then charge the maximum price that consumers are	e willing	to		
		pay a	t Q_1 , which is now P_1 . Thus, the change in tastes and pr	eferenc	es		
		toward	ds sustainable clothing will result in an increase in both a firr	n's outp	out		
		and p	rice. Assuming cost remains constant, profits increases from	ו P₀WX	C_0		
		to P ₁ Y	ZC1				



Mass production allow firms to lower average cost through internal economies of scale. Internal economies of scale can be reapd through for example, bulk buying of raw materials as the scale of production is large. The discount obtained from buying a large quantity allows the firms to have cost savings thus lowering the average cost of production. This is reflected by a fall in AC and MC curves from AC₀ and MC₀, to AC₁ and MC₁. At MC₁=MR₀, the profitmaximising output will be at Q1, with the price lower at P₁. Profits increase from $0P_0SQ_0$ to $0P_1UQ_1$ which is not attainable if Adidas had switched to producing small quantity of sustainable clothing.

IEV: However, if produced at too large a scale, the firms could face internal diseconomies of scale instead. This could come perhaps from overproduction leading to the wear and tear of machineries hence the firms need to incur vastly more cost to repair or replace the machines. The extent of increase in profits through continuation with mass production might be much less than expected.

Summative EV

On evaluation, in the short run, firms might not want to switch to producing more sustainable clothing as the extent of increase in demand from consumers cannot be ascertain. Firms also incur more cost while they switch to producing more sustainable clothing, for example, having to source for new sustainable supply such as cotton. The increase in cost might be much more than the gains. Instead, a possible strategy for the firm could be to collaborate with other firms such as the example given in Extract 4 of Allbirds and Adidas, where they work together on creating shoes with low carbon footprint. This would allow them to reap economies of scales and lower average cost by doing so. Nonetheless, firms should start the process of sourcing as the sustainable clothing is the trend and would be here to stay in the long run. Firms should start to accumulate expertise in the production of sustainable clothing and could gain more profits in the future.

Alternative:

R1: Changing behavior plus lower cost through mass production of sustainable clothing

R2: Cost might also increase as sustainable material are more expensive

Level of re	esponse and descriptors		
L2 Answ to ch econo Econo suppo	vers in this level consider how firms profit changes due nanging demand and cost conditions. Appropriate omic concepts, theories and principles are used. omic analysis is accurate, complete and well orted by contextual evidence.	4-7	
L1 Addre Answ firms'	esses only some question requirements accurately. vers in this level show limited understanding of how profits are affected.	1-3	
Evaluation	1		
E Evalue	lative comments are well-explained and supported by omic analysis.	1-3	

Question 2: The age of deglobalisation

(a)	(i)	Using Table 1, calculate and show how the trade balance of India with China has changed between 2018 and 2022.	[2]
		The trade balance is in an increasing deficit [1] from <u>-58.04 billion USD to</u> -101.28 billion USD. [1]	
	(ii)	Suggest a possible reason for the change observed in the trade balance in a(i).	[2]
		A rise in India's economic growth, national income and purchasing power could have resulted in an increase in demand for Chinese goods by India, which results in an increase in import expenditure and a worsening of the trade balance of India with China. Mark Scheme 1m for identifying reason 1m for explaining how X or M is affected using PED or DD/SS analysis	
	(iii)	Using the circular flow of income model, explain how the observed changes in the trade balance between 2018 and 2022 could have caused India's national income to fall.	[4]



The RCEP is a form of free trade agreement (FTA) which makes trade and investment between 2 or more economies easier.

R1: Countries like China pursue greater economic integration through RCEP due to the benefits it brings.

Such FTAs "ease trade in goods and services and facilitate the flow of foreign investments" (Ext 5) results in a rise in export revenue as well as investments which will in turn result in a rise in AD.

AD increases from AD1 to AD2 as seen in Figure 1 below. This increases real national income via the multiplier effect from Y1 to Y2, leading to actual growth, as well as lower demand-deficient unemployment as demand for labour increases. The rise in export revenue also improves the BOT position.



Alternative R1

Students might also mention how FTAs help maintain "open and connected supply chains" (Ext 5) resulting in lower prices of imported raw materials therefore resulting in a fall in production costs and therefore increasing the SRAS, easing cost push inflation.

R2: Countries like India do not pursue greater economic integration through RCEP due to the costs it brings.

FTAs will result in the removal of tariffs causing the world price to fall from Pw + t to Pw. This fall in price will result in a rise in domestic quantity demanded and a fall in domestic quantity supplied. Import volume will increase from Qs0Qd0 to Qs1Qd1 as seen in Ext 6 where India is "flooded with cheap made-in-China goods" (Ext 6). This will increase import expenditure (M) from areas A+C to area (B+C+D) and possibly worsen a country's BOT.



The Indian government should consider intervening in the further development of key sectors such as agriculture and textiles to the point whereby they will be able to compete with their foreign competitors.

Once this is achieved in the long run, countries such as India should pursue greater economic integration as they will be able to reap its benefits.

	el of response and descriptors	
L2	Question requirements are interpreted accurately. Considers both benefits & costs of freer trade due to FTA to an economy.	4-
	Appropriate economic concepts, theories and principles are used. Economic analysis is accurate, complete and well supported by contextual evidence.	
L1	Listing of theories with little to no reference to question and/or case materials	1-
	Focusing only on either the benefit or cost of FTA, hence lacking in breadth.	
Eva	luation	
E2	2 evaluative insights with respect to the question OR 1 well-developed insight.	2
E1	1 evaluative insight that is not further developed.	1
	labour flows" (Ext 7)	
	Any 2 reasons	
	 Any 2 reasons Disruptions to global supply chains due to the Russia-Ukraine war could disrupt the flow of goods and services. This could lead to a fall in demand for both exports and imports and thus reduce export revenue and import expenditure which resulted in deglobalisation. Such disruptions could also affect the flow of factor inputs such as raw materials causing average costs to rise. This reduction of profits could have an effect on returns of investment causing a fall in capital flows. 	
(ii)	 Any 2 reasons Disruptions to global supply chains due to the Russia-Ukraine war could disrupt the flow of goods and services. This could lead to a fall in demand for both exports and imports and thus reduce export revenue and import expenditure which resulted in deglobalisation. Such disruptions could also affect the flow of factor inputs such as raw materials causing average costs to rise. This reduction of profits could have an effect on returns of investment causing a fall in capital flows. Global events such as "financial crisis, trade wars" could also expose economies to external shocks. Such events reduces investor's confidence causing the flow of FDI to fall. 	

	Command Word	Discuss – balanced + EV
Approach	Start point	Building long term infrastructure and attracting talents
	End Point	Macroeconomic objectives
Content	Content	Macroeconomic policies
Context	Context	Singapore in the face of deglobalisation

Intro (Establish the problems of deglobalisation)

Deglobalisation occurs when there is "lower trade flows, capital flows and labour flows" (Ext 7). Being a small economy which is highly dependent on external trade and capital flows, Lower trade flows will result in a fall in demand for Singapore's exports, leading to a fall in growth rates. Similar, reduced access to important FOPs will also increase the price of FOPs, increasing costs of production and reducing SRAS, worsening cost push inflation. This will worsen macroeconomic problems faced by Singapore, such fall in growth rates, as well as rising inflation as seen in table 3.

By building long term infrastructure and attracting talents, Singapore will be able to tackle these issues and at the same time achieve other economic goals such as a lower rate of unemployment.

R1: Supply side policies, such as the building long term infrastructure and attracting talents will lead to a rise in LRAS thus allowing Singapore to achieve its macroeconomic objectives of potential economic growth as well as low inflation.

New infrastructures such as "nationwide 5G coverage" allows "businesses and consumers to enjoy faster network speeds and new applications" (Ext 8). These infrastructures also allow Singapore to tap on Artificial Intelligence (Figure 2) resulting in a rise in productivity. As more goods and services can now be produced by the economy, there will be a rise in productive capacity.

The influx of talents not only increase the quantity of labour but also the overall quality as they can "can translate technological innovations into scalable and viable business models" (Ext 8). This will also increase the productive capacity of the country.

When the productive capacity of the economy increases, the full-employment national output level will increase (from Yf1 to Yf2), as the LRAS shifts rightwards (from LRAS1 to LRAS2) as shown in figure 2. This rise in Yf leads to potential economic growth as the economic is now able to produce more goods and services.

Figure 2



There will also be a fall in GPL from P1 to P2 due to the increased in the level of spare capacity, dampening demand-pull inflation. Firms now do not need to compete for limited resources bringing down costs and therefore prices.

Limitations + IEV

In the case of supply-side policies, time lag is probably its biggest limitation. The rise in productive capacity due to the building of infrastructure takes longer time to be realised as they often involve structural changes to the economy. The urgent issue of high inflation due to supply chain disruptions resulting in deglobalisation might not be addressed promptly. This is a big concern as the rising prices of essential goods and service will result in a large impact on the material SOL of the people and therefore needs to be addressed immediately

R2: Supply side policies, such as the building long term infrastructure and attracting talents will lead to a rise in AD thus allowing Singapore to achieve its macroeconomic objectives of actual economic growth as well as low unemployment.

The building of infrastructure will lead to a direct rise in government expenditure. These infrastructures will also attract foreign direct investments into the country resulting in a rise in investment expenditure. The influx of talents will also increase consumption expenditure due to a rise in number of households. As these are components of AD, this will result in a rise in AD.

AD increases from AD1 to AD2 as seen in Figure 1 below. This increases real national income via the multiplier effect from Y1 to Y2, leading to actual growth, as well as lower demand-deficient unemployment as demand for labour increases.

Figure 1



Limitations + IEV

The extend to which real national income increase by is determined by the size of the multiplier (k). The size of the multiplier is determined by the marginal propensity to withdraw (MPW), which is the sum of MPS, MPM and MPT.

The k size of Singapore is small. It has a small domestic consumer base and a heavy reliance on imports. This is due to a large MPM (due to being heavily dependent on imports given its resource constraints) and high MPS (due to compulsory savings via CPF). The rise in G and I will lead to smaller multiple increase in real national income therefore limiting the effectiveness of the policy.

SEV: FTA as supporting policy

Even though supply side policies are effective in addressing some of the problems brought about by deglobalisation, especially in the long run, Singapore should supplement this by continuing to sign FTAs such as the RCEP. This will result in increase in demand for Singapore's exports, increase its export revenue (which will result in actual growth via an increase in AD) as well as increasing the inflow of cheaper imports (especially factor inputs so as to ease inflation). Given Singapore's small domestic market and heavy reliance on imports, the signing of more FTAs will still be an important supporting policy in the face of deglobalisation.

Mark Scheme)	
· · · · ·		
Level	Knowledge, Understanding, Application, Analysis	Mark

L2	Full display of AO1, AO2 and AO3 skills:	5-7
	For an answer that shows well-developed explanation of both form of supply-side policies and their limitations in achieving the intended macroeconomic goal (at least two).	
	Answer is well-contextualised to deglobalisation.	
L1	L1 Limited display of AO1 and AO2 skills:	
	For an answer that is mostly irrelevant, where there is some knowledge of ADAS, but only contains a few valid points made incidentally. Basic errors of theory may be evident.	
Level	Evaluation	Marks
E2	For an evaluation that provides one or two evaluative statements that are well developed, based on prior analysis. A summative statement and a recommendation are also provided.	2-3
E1	For an evaluative statement that is somewhat developed.	1

Essays

- (a) Explain how a profit-maximising firm sets its price and output decisions and why the firm might practise price discrimination. [10]
- (b) In the e-commerce market, firms like Amazon and Alibaba are facing growing competition due to increasing ease of setting up online shops.

Discuss the impact of the growing competition on efficiency outcomes. [15]

	Command Word	Explain how
Approach	Start point	R1: A profit-maximising firm R2: Reasons for price discrimination
	End Point	R1: Price and output setting decisions R2: Price discrimination
Content and	Content	 Profit-maximising objective Price discrimination
Context	Context	A firm

Qn 1(a) (Question Analysis)

Suggested Response

Introduction

• The traditional assumption is that a firm will profit-maximise. The condition for profit maximization is when an extra unit of output produced is where marginal revenue (MR) = marginal cost (MC). A price-setting firm with market power is assumed.

Requirement (1) – How a profit maximizing firm sets its price and output decision.

- A price setting firm which has market power faces a downward-sloping demand/average revenue (AR) curve because it has control over price. Thus, MR<AR and the slope of MR is twice that of AR curve. MR is the additional revenue it receives from selling the extra unit.
- Average cost (AC) = Total Cost/Quantity of output. Another crucial cost is MC = the additional cost incurred from producing the extra unit. When a firm produces 1 more unit of output, it incurs extra costs of production associated with the resources that have had to be used suc as labor costs and costs of electricity.
- To maximise profits, a firm will set its price Pe and output Qe based on the MR = MC condition (the marginalist principle). With reference to Figure 1,
 - At Q1, whenever MR1 > MC1, an extra unit of output adds more to total revenue than it does to total cost, so profits will rise. So firm increases output.
 - At Q2, whenever MC2 > MR2, → so by reducing output, not making this extra unit, then total profit must increase.
 - Only at Qe and Pe, produce the very last unit where MR = MC, profits is maximised and at its peak.





Requirement (2) – Why the firm might price discriminate

- Price discrimination means the charging of different prices to different customers or for different units of the **same product** when there are **no differences in costs**.
- The most common form of price discrimination is third degree price discrimination.
- A firm might price discriminate because the conditions for price discrimination are met and allow the firm to do engage in such a pricing strategy:
 - The seller has **some degree of monopoly power** (some degree of market imperfection)
 - The markets can be effectively segmented based on criteria such as location, timing, income, age (so that resale of the good is impossible)

- The price elasticities of demand differ for different markets (so that the seller will sell at a higher price in the market with a more price inelastic demand and a lower price in the market with a less price inelastic demand to maximise his total revenue)
- Price discrimination enables the firm to earn higher revenue, and assuming cost remains the same, the firm will enjoy higher profits from both markets as compared to charging a single price. Instead of charging a uniform Pe (the profit maximizing price) to all consumers, the firm can:
 - A higher price charged in the market with price inelastic demand will result in a less than proportionate fall in quantity demanded, therefore total revenue increases.
 - The lower price charged in the price elastic demand market will result in more than proportionate rise in quantity demanded, therefore total revenue increases.

Mark Scheme

Level	Knowledge, Understanding, Application, Analysis	Marks
L3	Displays full slew of skills across AO1, AO2 and AO3:	8-10
	• Well elaborated and accurate explanation of the analysis of profit maximisation + price discrimination	
	Sound profit maximisation analysis and conditions for price discrimination	
L2	Displays AO1 and AO2 skills:	5-7
	 Accurate but under-developed explanation of the above. 	
	• One sided, imbalanced response with no detailed explanation of profit maximization OR price discrimination.	
L1	Uneven display of AO1 and AO2 skills:	1-4
	 Answer is mostly irrelevant, with wrong/missing application of 	
	 Shows some knowledge of the profit maximization / price discrimination but lacks elaboration. 	

(b) In the e-commerce market, firms like Amazon and Alibaba are facing growing competition due to increasing ease of setting up online shops.

Discuss the impact of the growing competition on efficiency outcomes. [15]

	Command Word	Discuss – balanced answer with evaluation
Approach	Start point	Growing competition
	End Point	Efficiency outcomes
Content and Context	Content	 Imperfect market Allocative efficiency Productive efficiency Dynamic efficiency
	Context	E-commerce market

Part (b) (Question Analysis)

Suggested Response

Introduction

- There are three types of efficiency outcomes allocative, productive and dynamic efficiencies.
- With the increasing ease of setting up online shops, the barriers to entry in the e-commerce market are now lower, allowing new firms to enter the market. As the number of firms in the market increases, the incumbent firms like Amazon and Alibaba are facing growing competition.

Requirement (1) – Impact on allocative efficiency

- Growing competition makes a market more price competitive as the number of sellers / online retailers
- Demand for e-commerce of the dominant firm such as Amazon and Alibaba to fall and become more price elastic as the number of substitutes in the market increases → hence reducing its monopoly power/market power to abuse its market dominance by raising price and restricting output. With more competition, the dominant firm will compete by reducing price towards MC, hence reducing allocative inefficiency.
- Initially at AR0 and MR0 before entry of more competitors, the deadweight loss area is abc. Loss of societal welfare is high due to high market power as wielded by the monopoly.
- With government's policy of lowering barriers to entry, more firms enter the market, resulting in the incumbent firm's AR (due to fall in demand) and MR to fall to AR1 and MR1.
- Conceptually: P close to MC
- Diagrammatically: smaller triangle DWL area cde → societal welfare rises and hence society is better off.





Intermediate Evaluation (1) – To what extent is the allocative efficiency

- The **extent** of the positive impact on allocative efficiency depends on how much the barriers to entry are lowered in the e-commerce market. How different forms of barriers to entry are lowered and increasing the ease of entry in the e-commerce market:
 - Online firms can avoid high rents for shop space in popular locations.
 - More firms e.g. Shein are able to adapt well and embrace new technology and built their own platforms and apps, allowing them break into the e-commerce market.
- The **extent** of the positive impact on allocative efficiency depends on whether the existing incumbent firms like Amazon and Alibaba are able to raise the barriers to entry through:
 - Using advertising and marketing to tap on consumers' brand loyalty and cognitive biases which give these brand names substantial market power ie small fall in demand and demand is still fairly price inelastic.
 - Through various aggressive pricing / non-pricing strategies that deter new entrants.

Requirement (2) – Impact on productive efficiency / dynamic inefficiency

- Productive efficiency from firm's point of view: the growing competition will force the incumbent to be more productive efficient (to make efficient use of its resources) in order to maximise profits, that is, it will ensure price charged is on its AC curve ie a given level of output is produced at the lowest cost possible.
- Growing competition → lower profits → Diagram → less W&A to fund research and development and drive forward product and process innovation → dynamic inefficiency e.g. AI, payment and cloud services.

Intermediate Evaluation (2) – To what extent is the productive efficiency / dynamic inefficiency?

- Productive inefficiency from society's point of view may occur → growing competition may
 mean that firms will now produce on a smaller scale of production → would not be able to
 benefit and exploit from economies of scale eg in purchasing and distribution → would not be
 able to produce on the minimum point of LRAC, but output produced will be further up along
 the upward-sloping of LRAC.
- The **extent** of dynamic inefficiency will depend on how much the supernormal profits of existing incumbent firms are being eroded → Amazon and Alibaba are still enjoying giant market dominance and thus enormous supernormal / abnormal profits → both are still W&A to carry out R&D and produce innovations

Summative Evaluation

- **Stand:** In conclusion, growing competition is likely to have positive impact on allocative efficiency and productive efficiency and maybe a negative impact on dynamic efficiency.
- **Justification:** Given that the e-commerce market is becoming more contestable, the positive reinforcement on allocative and productive efficiencies will increase to a greater extent.
- **Recommendation:** Consumers benefit as prices are lowered online and products and services become more innovative. However, some firms like Amazon and Alibaba have been able to build substantial market power in the e-commerce market and new firms would find it challenging to compete their market dominance.

Mark Scheme

- **2** Between 2009 and 2023, the price of dental services in Singapore had risen by 2.9% annually. Although subsidised dental services are available at polyclinics, private dental clinics remain a viable option due to shorter waiting time.
 - (a) Explain why a fall in number of dentists and a rise in incomes of many households are **each** expected to cause a rise in expenditure on dental services. [10]
 - (b) Discuss whether subsidy is likely to be the most effective way the Singapore government can make dental services remain affordable for all Singaporeans. [15]

Suggested answers (a)

Question Analysis Framework		Details	
Approach	Command word	Explain why	
	Start point	R1: Explain how fall in number of dentists affect supply of dental services and apply PED analysis to determine the rise in dental expenditure	
		R2: Explain rise in incomes of many households affects demand of dental services apply YED analysis to determine the rise in dental expenditure	
	End point	Rise in dental expenditure (PXQ)	
Content	Content	 Determinants of demand and supply factors 	
& Context	(Scope of coverage)	Price adjustment process	
		PED and YED analysis	
	Context	Singapore context	

Introduction

 The rise in dental expenditure in Singapore can be analysed through demand and supply framework, along with price elasticity of demand (PED) and income elasticity of demand (YED) concepts. Supply factors such a fall in number of dentists raise the price of dental services while rise in household incomes drive demand and rise in both price and quantity of dental services. PED and YED will help explain consumer responses to price and income changes, offering insights into the increased dental expenditure.

R1: fall in number of dentists raises supply of dental services + PED analysis \rightarrow rise in dental expenditure

• **P**oint: A fall in the number of dentists reduces the supply of dental services as less dentists are available to provide dental services (can be seen as fall in number of suppliers).

Explain (explain price adjustment process with diagram): This shifts the supply curve leftwards from S₀ to S₁ and creates a shortage of distance E*E₀ at price P₀ as shown on Figure 1 below. This shortage leading to a rise in prices as the market adjusts to the reduced availability of services; consumers will be less incentivised to consume at higher price P₁ and quantity demanded will fall along demand curve D₀. On the other hand, the upward pressure in price from P₀ to P₁ will incentivise dentists to increase their quantity supplied of services (perhaps through longer operating hours) along the new supply curve S₁. This process will continue until a new market equilibrium E₁ is attained where a higher equilibrium price P₁ and lower equilibrium quantity Q₁ are attained.

Price per dental service (\$)





• Explain (explain with PED Analysis): The demand for dental services is likely to be relatively price inelastic, as there are few close substitutes available. In cases of a dental 'crisis', consumers generally have limited options: they can either wait for several months to secure a consultation at a polyclinic or visit a private dental clinic, where appointments also need to be scheduled in advance. Consumers rarely attempt to address dental issues on their own. Consequently, the price elasticity of demand (PED) for dental services is likely to have a low absolute value, typically between 0 and 1, reflecting that consumers are relatively unresponsive to changes in price. As shown in Figure 1, an increase in price would hence result in a less than proportionate decrease in the quantity demanded, from Q₀ to Q₁.

• Link: This would result in higher overall expenditure of area 0P₁E₁Q₁ of dental services, where the increase in expenditure (area A) outweighs the fall in expenditure (area B) on Figure 1. Thus, the combination of fall in number of dentists and price inelastic demand can drive up dental expenditure.

R2: rise in incomes of many households raises demand of dental services + YED analysis to determine the rise in dental expenditure

- Point: An increase in household incomes leads to a rise in the demand for dental services, as dental care is typically regarded as either a normal necessity (with an income elasticity of demand, YED, between 0 and 1) or a luxury good (YED greater than 1), both of which have a positive YED. Necessity dental services, such as routine check-ups, fillings, and scaling and polishing, exhibit lower income responsiveness. In contrast, luxury dental services, such as braces, crowns, or teeth whitening, are more income-sensitive and experience a greater increase in demand as incomes rise.
- Explain (explain with YED Analysis): As household incomes rise, more consumers are choosing luxury cosmetic dental services, such as Invisalign and ceramic crowns, which can cost at least \$4,000. Therefore, the income elasticity of demand (YED) for these dental services is likely to be high, meaning that demand increases more than proportionately with income. This results in a rightward shift of the demand curve from D₀ to D₁, as illustrated in Figure 2. Given higher demand, ceteris paribus, both equilibrium price and quantity would rise, leading to an increase in total dental expenditure, represented by area 0P₁E₁Q₁.



• Link: Thus, the combination of rise in household incomes and income elastic demand can drive up dental expenditure.

Mark out of	Level / Descriptors	
10		
8 - 10	 L3 Display of key adjustment processes Application of relevant elasticity concepts – PED and YED Need to link to change in P, Q and total expenditure + area of expenditure 	
5 - 7	 L2 Accurate but under-developed explanation of the above No separate dd/ss analysis but instead did combined shifts without application of PED & YED 	
1 - 4	 L1 Answer is mostly irrelevant, with wrong/missing application of DD/SS analysis. Applied irrelevant concepts eg. PES or XED/ market failure 	

(b) Discuss whether subsidy is likely to be the most effective way the Singapore government can make dental services remain affordable for all Singaporeans. [15]

Suggested answers (b)

Question Analysis Framework		Details
Approach	Command word Discuss	
	Start point	R1: Subsidy is an effective way to reduce price of dental services and ensure affordabilityR2: Other methods eg. Price ceiling is another effective way to ensure affordability of dental services
	End point	Which approach is more effective
Content	Content	Dd/ss analysis
& Context	(Scope of coverage)	
	Context	Singapore context

Introduction

• Subsidies and price ceilings are possible government interventions to ensure the affordability of dental services in Singapore. Both policies aim to keep dental prices low

and within reach for consumers, especially those with lower incomes. A subsidy reduces the marginal cost of production, lowering prices for consumers while encouraging higher consumption of dental services. Meanwhile, a price ceiling sets a legal maximum price below the market equilibrium, making dental services more affordable, though it may create excess quantity demanded and potential shortages.

R1: Subsidy is an effective way to reduce price of dental services and ensure affordability

- How-Advantage: □A subsidy is an effective way to reduce the price of dental services and improve affordability by lowering the unit cost of production or service provision for dental care providers. In Singapore, subsidies for dental services are effectively implemented through schemes like CHAS (Community Health Assist Scheme) which offers dental subsidies to Singaporeans from lower- to middle-income households for basic dental services such as scaling, polishing, and fillings at participating clinics. This scheme effectively shifts the supply curve to the right, lowering prices for subsidised treatments and making them more affordable as shown on Figure 3 below. When the government provides a subsidy, it effectively covers part of the cost that producers would typically bear, shifting the supply curve to the right from S₀ to S₁.
- Price Adjustment Process: As the supply curve shifts to the right, this creates a surplus
 of distance E₀E*at the original price level P₀, putting downward pressure on the price. The
 price will continue to fall until a new equilibrium is reached at a lower price P₁ and higher
 quantity Q₁. This reduction in price helps to make dental services more affordable for most
 Singaporeans.



Limitations + **iEV#1**: However, the impact of a subsidy depends on the price elasticity of demand (PED) for dental services. For essential dental services in Singapore, such as fillings and polishing where the demand is relatively priceinelastic demand, a small subsidy per unit can result in a substantial price reduction, as illustrated in Figure 3. On the other hand, for more complex services that take up a significant portion of consumers' income, such as wisdom tooth removal or braces (where |PED| > 1), a larger subsidy would be required to have the same fall in the price of dental services.

Also link to whether

subsidy addresses

'affordability to ALL Singaporeans'

(answers the qns)

 In addition, subsidy provided to polyclinics is not the most effective way to ensure affordable dental services for all Singaporeans as it is still common for middle to higher income consumers to choose/prefer more expensive private dental clinics, over subsidised polyclinics with longer wait times.

R2: Price ceiling is another effective way to ensure affordability of dental services

 How-Advantage: The Singapore Dental Association (SDA) publishes recommended fee guidelines for dental procedures. While these guidelines are not legally binding price ceilings, they serve as a reference point for what is considered reasonable pricing in the industry. This can indirectly act as a price ceiling by guiding private dental practices to keep their fees within a certain range, thus preventing excessive charges for standard procedures. In theory, price ceiling will cap the prices of dental services from rising beyond Pc as shown on Figure 4 below.





Limitations + iEV#2: However, the imposition of a price ceiling would increase the quantity demanded for dental services to Q1 at the ceiling price (Pc), while simultaneously discouraging dentists from providing more services, reducing quantity supplied to Qss. This creates a shortage of dental services, represented by the distance E^*E_1 , leading to longer waiting times at dental clinics. However, Applied the a shortage or long waiting times at private dental clinics is unlikely to occur in (contextualising) Singapore as the fee guidelines set by SDA are not legally enforceable price ceilings. As a result, private dental clinics have the flexibility to set their own prices, preventing shortages or the emergence of black markets in dental services.

Summative EV: In conclusion, subsidy is likely to be a more effective approach for affordable dental services rather than implementing price ceilings, such as fee quidelines.

- While fee guidelines (price ceiling) may help regulate prices for basic dental procedures, they often exclude more complex treatments; for example, the cost of dental braces can vary based on an individual's specific condition, making it difficult to impose a standardised price ceiling for such services. In contrast, subsidies is a more straightforward approach to directly lower price for consumer by reducing out-of-pocket expenses to ensure affordability and accessibility in dental care.
- Furthermore, consumers, particularly the elderly, may not always be aware of fee quidelines or may face difficulties comparing prices across clinics, reducing the effectiveness of price ceilings in controlling dental costs.
- Even with subsidies at polyclinics, affluent consumers may still opt for more expensive private dental clinics due to the perception that polyclinic dentists are less experienced or not as qualified.
- Therefore, SG government could consider providing subsidies for training more skilled professionals in dentistry, which would help increase the supply of dentists and ultimately lower the price of dental services.

Provide a stand: subsidy or price ceiling preferred?

limitation to SG

Provide a reason to justify your stand through further comparisons

Links back to addressing affordability to ALL Singaporeans'

Briefly propose another alternative

Mark out of 10	
8 - 10	L3
	 Comprises 2 policies that provide a spread of economic analysis
	How the policy works + Limitations
5 - 7	 Accurate but under-developed explanation eq lacking in limitations
	 Lacks scope ie both policies are similar in DD SS analysis
1 - 4	L1
	Answer is mostly irrelevant
	Serious conceptual errors

	5	E3 - Judgements with insightful contexts
54	3-4	E2 - Judgement with some contexts
EV	1-2	E1 - Judgement without justification need to at least link back to answering the question which is 'affordability'

- **3** Libraries provide access to information and foster community engagement. The Singapore National Library Board opened the new Punggol Regional Library in 2023 as well as introduced a mobile app that offers digitalised version of its resources.
 - (a) Explain why library services are not considered a public good and the economic case for government intervention in this market.

[10]

(b) Discuss whether the construction of new libraries or digitalisation of library resources is a better form of government intervention in the market for library services. [15]

Suggested answers (a)

Question Analysis Framework		Details	
Approach	Command word	Explain why	
	Start point	 R1: Define public good and explain how library services are not considered a public good as it does not satisfy the 2 characteristics of public good R2: Explain the economic case for government intervention (accept both positive externalities and imperfect information) 	
	End point	Why library services are not a public good and sources of market failure	
Content & Context	Content (Scope of coverage)	Characteristics of a public good	

	Positive externalities/ imperfect information
Context	Library services

Introduction

- Market failure refers to a situation where the free market, in the absence of government intervention, fails to achieve economic efficiency. In the area of public goods and goods with externalities, they cause the market to fail because the free market fails to achieve allocative efficiency in the provision of such goods and services. Allocative efficiency occurs when marginal social costs (MSC) is equal to the marginal social benefits (MSB) in production or consumption. Government intervention is advocated to improve efficiency in these markets.
- Library services are not considered a public good as it does not satisfy the characteristics of a public good.
- However, there is still an economic case for intervention as it is a good with positive externalities.

R1: Define public good and explain how library services are not considered a public good as it does not satisfy the 2 characteristics of public good

- A public good is a good that possess the characteristics of non-excludable, non-rivalrous and non-rejectable in consumption.
- A good is non-rivalry in consumption if one person's consumption of the good does not reduce the quantity available to another person.
- In the case of library services, it is rivalry in consumption as the consumption of library services by one additional user will diminish the amount available for the next user. This is because there is a limited number of library staff as well as finite amount of books.
- A good is non-excludable in consumption if it is difficult to exclude non-payers from enjoying the good.
- Library services are excludable as university libraries are able to set up gantries and security positions to exclude non-university students (non-payers) from entering and enjoying the library services.
- A good is non-rejectable in consumption when individuals cannot opt out of consuming/enjoying the benefit of the good even if they do not wish to do so. Once the good is provided, everyone is affected by it.
- In the case of library services, it is rejectable in consumption as individuals can choose not to go to the library and enjoy the library services.
- Thus, library services are not considered to be a public good.

R2: Explain the economic case for government intervention (accept both positive externalities and imperfect information)

• There is still an economic case for intervention as library services are goods with positive externalities.

- Positive externalities refer to uncompensated 3rd party benefits arising from the production or consumption of goods and services. Since the consumers and producers do not take into account these external costs or benefits in their decisions, the free market outcome is under producing or consuming.
- When library services are consumed, people consider only their marginal private costs (MPC) (membership fees / cost of borrowing) and marginal private benefits (MPB) (satisfaction of reading a book as a pastime / greater knowledge gained).
- They do not consider marginal external benefits (MEB) of fostering community engagement as library services as accessible and inclusive spaces that encourage social interaction, learning and civic participation. Additionally, by providing resources and opportunities for education at all life stages, libraries help foster a culture of lifelong learning.
- Government will enjoy the benefits of having higher tax revenue from having a skilled and educated workforce as well as having lower policing force as there is less conflicts in the community. This will also further attract FDI, boosting economic growth and increasing job opportunities and incomes for others.
- The market equilibrium of library services consumed is where MPB=MPC at Qm. The socially optimal level occurs where MSB=MSC at Qs where society values the additional unit of library services the same as the additional cost to society of producing it. Since Qm<Qs, there is underconsumption of library services. Between Qm and Qs, for every additional unit of library services consumed, it adds more to social benefit than to social cost. Hence, there is a net benefit that is not enjoyed by society since only Qm level of library services consumed. The loss of net benefit (deadweight loss) is denoted by area ABC.
- Diagram



Mark out of 10	Level / Descriptors

8 – 10	 L3 Both points are clearly stated and explained using: Characteristics of public good Why would the market for library services fail Diagram(s) for positive externalities/imperfect information
5 - 7	 L2 Accurate but under-developed explanation of the above.
1 – 4	 Answer is mostly irrelevant, with wrong/missing application of public good and other source of market failure.

(b) Discuss whether the construction of new libraries or digitalisation of library resources is a better form of government intervention in the market for library services. [15]

Suggested answers (b)

Question Analysis Framework		Details	
Approach	Command word	Discuss	
Start point R1: Construction intervention R2: digitalisatio government intervention		R1: Construction of new libraries is a better form of government interventionR2: digitalisation of library resources is a better form of government intervention	
	End point	Which approach is more effective	
Content &	Content	Government policies	
Context	(Scope of coverage)		
	Context	Library services	

Introduction

- Government aims to achieve the microeconomic goals on economic efficiency and equity.
- As explained before, the market for library services fails due to the presence of positive externalities.
- Thus, the government can choose to intervene through either construction of new library or digitalization of library services.

R1: Construction of new libraries is an effective way to correct market failure

- Construction of new libraries such as the Punggol regional library mentioned in the preamble is an effective way harket failure due to the presence of positive externalities by increasing consumption.
- This would reduce the MPC of consumers of using library services as with more libraries, it would be more convenient, and consumers will incur lower costs such as travelling cost. As previously, libraries may not be easily accessible due to their location, lack of transportation, people may find it inconvenient to visit.
- Thus, the new market equilibrium (MPC1=MPB) will be closer/at to the socially optimal level of consumption, Qs.



Intermediate Evaluation

However, construction of new libraries are very costly for the government and governments who are facing budget constraints would be unable to do so. Even with the construction of new libraries, residents may choose not to visit the library and using the library services as they do not have the habit of doing so. It takes time for the residents to adjust their lifestyles and be attuned to visiting the library.

There could also be a lack of awareness of the full range of services that libraries offer. Thus, the Singapore Library Board should also advertise and communicate their offerings to the community, people may not realise the value or relevance of what the library provides.

R2: Digitalisation library services is another effective way to correct market failure

• **H-A**: Digitalisation of library services include incorporating digital tools, technologies, and resources to enhance and expand the services libraries offer. This transition enables libraries to provide more accessible, efficient, and relevant services to their communities. Systems like OverDrive or Libby enable users to

borrow e-books, audiobooks, and other digital content with just a library card, directly from their devices. Digital catalogs enable users to search for, reserve, and manage both physical and digital resources online from home or on their mobile devices.

- This would attract more residents such as the younger generation who prefers using the mobile applications to borrow e-books to make use of the library services.
- This will thus increase the marginal private benefit from MPB to MPB₁. This would cause consumers to internalize the negative externalities and MPB₁ will be closer/at MSB.

• The socially optimal level of consumption is achieved correcting the market failure. Intermediate Evaluation

- Digitalisation of library services may not increase the MPB significantly as some people may perceive libraries primary as for borrowing physical books, not realizing how much they have evolved to include digital resources, online learning, and multimedia content. They may prefer other popular online platforms (like Amazon, Google, YouTube, or Wikipedia) for information, books, or media, perceiving them as more convenient or up-to-date than library resources.
- The older generation may lack the digital skills needed to navigate online catalogs, use digital lending platforms, or access virtual programs, which can prevent them from using library services.
- This could also boil down to simply the lack of need or interest for library services.

Summative Evaluation

- Both construction of new libraries and digitalisation of library resources are forms of government intervention in the market for library services that reduces the market failure.
- Whether construction of new libraries or digitalization of library resources depends on the root of the problem whether people are not going to libraries because of locations of libraries or whether the lack of relevance due to the availability of online platforms.
- It also depends on whether the government has the resources to carry out the costly interventions of construction of new libraries and the technology know-how to digitalise library resources such that it stays relevant for the younger generation.

Mark out of 10	Level / Descriptors
8 – 10	 Both R1 & R2 clearly stated and explained using: Market failure diagram Explain how market failure is corrected Considered how policy would affect MPB/MPC

5 – 7	 L2 Accurate but under-developed explanation of the above.
1 – 4	 L1 Answer is mostly irrelevant, with wrong/missing application of market failure diagram.

- 4 Effective governance is vital for a country's economic prosperity and the well-being of its citizens.
 - (a) Explain why the same initial rise in government spending would have different effects on actual economic growth across various economies. [10]
 - (b) Discuss the view that more inclusive but slower economic growth is preferable to growth that is at a higher rate but less inclusive. [15]

Suggested answers

(a)		
Question Analysis Framework		Details
Approach	Command word	Explain
	Start point	 R1: Explain detailed multiplier process with one clear reason why size of k can differ for different economies R2: Explain second reason why size of k can differ for different economies or other factors like crowding out effect OR depending on which part of the AS curve
	End point	Different effects on actual growth for different economies
Content	Content	Multiplier process
& Context	(Scope of coverage)	Determinants of multiplier size, k
	Context	Candidate to choose different contexts

R1: The same rise in G can have different impact on actual growth in different countries due to different multiplier size.

With a increase in government spending, the economy faces an unplanned running down of stocks of capital goods.

To maintain the level of stocks in the inventories, firms will step up their production of capital goods by hiring more resources (i.e., purchasing more capital, using more land space and hiring more labour). This in turn leads to these factor owners (of the capital, land and labour), as well as the entrepreneurs running these firms to receive an extra income, raising the national income in the first round.

As national income starts to rise, it will induce more consumption in the economy.

Since one person's spending becomes another person's income, the additional consumption by the first group of factor owners will now create additional income for another group of factor owners in the economy. National income will now rise by another round, albeit by a smaller amount.

This rise in income will once again generate another round of consumption in the economy. As consumption rises for another round, so too will production, output and income.

This process will then continue, with each round of increase becoming smaller; until the rise in income is too small to generate any further consumption.

Through this multiplier process, the initial increase in investment expenditure would lead to an eventual increase in national income.

Graphically, this increase in investment expenditure leads to a multiplied increase of national income from Y_1 to Y_2 .



The extent of rise in RNY depends on the size of k = 1 / [MPS + MPT + MPM].

A small and open economy like Singapore relies heavily on imports for its survival. Hence its large MPM makes its k factor smaller than other economies. The same rise in G will lead to a smaller multiplied increase in RNY for Singapore.

R2: It depends on how close the economy is to full employment level of national income is stage of development (developed vs developing economy).



The diagram shows the same rise in G and hence AD. Rise in AD from AD1 to AD2 = AD3 to AD4

However, the rise in RNY is less for AD3 to AD4. Why?

Given that the economy is operating much nearer to Y i.e. the case of a developed economy where most FOPs are already employed, the same rise in AD will lead to a limited rise in RNY since unemployed FOPs are increasingly scarce. With limited spare capacity, the rise in AD translates to higher GPL instead i.e. demand-pull inflation.

This is in contrast to a developing economy where much of the AD rise translates into a rise in RNY through the multiplier effect.

Alternative R2: Crowding out effect

For a country that requires government borrowing from banks to fund G spending, the resulting rise in interest rates leads to the unintended effect of increasing cost of borrowing for households and firms, leading to C and I to fall respectively.

Hence while G rises, C and I both fall to mitigate the rise in overall AD. With reference to Figure 1, the eventual rise in AD will be less than AD2. This limits the rise in RNY (less than Y2 shown) compared to the case of a country where the government did not engage in borrowing.

Level	Knowledge, Understanding, Application, Analysis		
L3	Displays full slew of skills across AO1, AO2 and AO3:		
	• Well elaborated and accurate explanation of the workings of the multiplier process + k size, as well as one other reason that explains the different effects of rise in G on RNY.		
	Sound AD-AS analysis		
L2	Displays AO1 and AO2 skills:	5-7	
	 Accurate but under-developed explanation of the above. 		
	• One sided, imbalanced response with no detailed explanation of		
	multiplier process.		
L1	Uneven display of AO1 and AO2 skills:	1-4	
	• Answer is mostly irrelevant, with wrong/missing application of AD-AS analysis.		
	• Shows some knowledge of the multiplier effect but lacks elaboration.		

(b) Discuss the view that more inclusive but slower economic growth is preferable to growth that is at a higher rate but less inclusive. [15]

Question Analysis Framework		Details
Approach	Command word	Discuss
	Start point	R1: More inclusive but slower economic growth
		R2: Growth that is at a higher rate but less inclusive is good
	End point	Which approach is more preferable
Content	Content	Actual growth
& Context	(Scope of coverage)	Potential growth
		Sustained growth
		Inclusive growth
	Context	Candidate to anchor on contexts of choice

R1: More inclusive but slower economic growth is good

Through inclusive growth policies like upskilling of workers especially for lower-skilled, enable different groups of workers to contribute to economic growth while ensuring income inequity is not worsened.

Explain AG (small AD rise) + PG (small LRAS rise) + more inclusive.

1. With slower growth, slower transitioning from sunset industries to sunrise industries → issue of structural unemployment is of a smaller extent.

A country could grow by reallocating resources to produce more of the good in which it has a comparative advantage ie with lowest opportunity cost of production. For example, a country like Malaysia could reallocate resources from its ailing car industry to producing agricultural crops instead. In so doing, the government could do so by spending more on technology and innovations in the agricultural sector to boost AD and promote actual growth. In the long run, such spending also seeks to improve productivity and hence expand its productive capacity.



The diagram shows how Actual Growth (AD1 to AD2) and Potential Growth (AS1 to AS2) leads to Sustained Growth.

The approach of doing so can be to pace out the transitioning such that the layoff of workers is done in a controlled manner, in line with implementation of reskilling plans such that they are able to better acquire the necessary skills and competencies (food sciences to produce plant-based meats, etc) to more easily transit over to the agricultural sector. In so doing, the extent of structural unemployment is minimised although this will necessarily mean that there is a smaller rate of growth.

IEV:

- While such an approach takes greater consideration of more inclusive growth, the consequential slow rate at which the country transits to the emerging sunrise sector may lead to another country adapting faster and seizing the economic opportunity at the expense of the home domestic country in question. This will seriously derail the government's initial plan of achieving greater inclusivity when the growth opportunity may no longer be there.
- The above illustrates a tradeoff for a government that wants to keep an eye on the structural unemployment issue (especially for sunrise industries that require a very different skillset from the sunset industry and with little transferable skills), the growth rate necessarily needs to be lower. This is especially a pressing issue for a country that is still largely entrenched in its sunset industry where significant number of workers are employed. Examples include the US where many primary sectors have declined due to the ability of developing countries produce at lower cost, resulting in US workers to be structurally unemployed.
- This issue is also significant for governments with fiscal deficits and hence less ability to spend on supply-side policies. Also for countries where income inequity is significant and is of high priority. A faster rate of growth would lead to significant short term pains of structural unemployment.

Other acceptable points:

- 2. A smaller rate of growth while being inclusive as explained above, also mitigates demand-pull inflation that would have eroded the domestic value of money, especially if was nearing Yf. A more gradual rate of AD rise would moderate the extent of rise in competition for its scarce factors of production, mitigating the rate of demand-pull inflation. In so doing, the internal value of money would not decline as quickly and as much, especially useful for lower income households.
- 3. With improvement in equity, low income households can have increased access to essential goods and necessities. In addition, with higher MPC than the rich, low income households can spend more on Consumption, leading to increase in overall C in the economy. This could then help to increase AD, leading to actual growth subsequently.

R2: Growth that is at a higher rate but less inclusive is good

Can make reference to R1's diagram that showed the explanation of AG (AD rise) + PG (LRAS rise) + inclusive [Don't need to redraw]

1. Faster rise in incomes earned and hence improvement in material SOL as a whole.

With economic growth, more workers are employed over subsequent rounds and with higher incomes (also assuming same population size, real GDP per capita rises).

Households increase their purchasing power to increase the quantity and quality of goods and services consumed eg. consume more luxury goods like restaurant meals rather than basic necessities like hawker meals. Hence generally, material standard of living rises faster and more significantly.

However this may be less inclusive:

Given that this real GDP per capita is an average concept, it does not mean that every person would have experienced a rise in material SOL and at equal extents. Workers who are structurally unemployed would in fact experience job loss and a fall in purchasing power and material SOL.

Intermediate EV: Challenge assumption that it is a trade-off between growth and inclusiveness Although less inclusive initially, higher income tax collected by government as the economy grows at a faster rate can be used for redistributive efforts to provide more support for low income households eg through the use of tiered subsidies for healthcare, education, GST vouchers, etc, improving inclusiveness eventually.

2. Higher income growth increase optimism for the future.

Profit-maximising firms now assess projects to have a higher rate of returns (i.e. profits) than previously thought, hence increase their investments. This leads to rise in domestic investments as well as more FDIs inflow, fueling further actual growth + potential growth = sustained growth in future.

[Similarly, households have more optimistic expectations of the future and undertake more purchase of big ticket items \rightarrow increase Consumption, AD and hence actual growth.]

In so doing, it helps to create more and higher value jobs for lower income workers to potentially take on and hence increase their job prospects and future incomes, achieving more inclusive growth.

Level	Knowledge, Understanding, Application, Analysis	Marks
L3	 Displays full slew of skills across AO1, AO2 and AO3: A balanced and well-developed answer analysing the two different 	8-10
	approaches to growth and their implications	
L2	Displays AO1 and AO2 skills:	5-7
	 An under-developed but balanced answer (eg ability to analyse and compare between high vs low growth rate but impact on more or less 	
	inclusive growth is unclear/unexplained)	
	Imbalanced response that analyses either approach only	
L1	Uneven display of AO1 and AO2 skills:	1-4
	An under-developed answer that has a limited scope	
	Many conceptual errors	
	 No economic framework in analysis (eg inclusive growth explained in descriptive manner without anchoring on AD-AS analysis) 	
	Question requirement is not addressed	
	Evaluation	Marks
E3	Well-reasoned judgement	4-5
	• A well-reasoned judgement about the respective approaches in context	
	and how they compare.	
E2	Largely unexplained judgement	2-3
F 4	Some attempt to explain judgement	
E1	An unsupported judgement	1
	 Most evaluative statements or judgements that are neither supported nor 	
	relevant to the specific context of the question	

Intermediate EV: While more and higher value jobs can be created, it depends very much on whether the lower income workers have the necessary skills to pivot to these jobs. Hence, the government has to play a big part to put in place supply-side policy of continuous upskilling of workers. Sufficient incentives will have to be built in to encourage workers/unemployed to undergo such training and for employers to invest in the upskilling of its workers.

Summative EV:

Each country adopts a different approach, depending on its current state of infrastructure, technology, level of worker competencies and readiness, availability of fiscal surplus.

Specifically, developing countries will have to adopt an outward orientation in order to attract FDIs, technology and talents, as it prioritises high growth rate over inclusiveness. High growth rate can grow the amount of tax revenue collected, enlarging the ability of the government to meet several competing demands, with greater ability for redistributive schemes to reduce income inequity.

Level	Knowledge, Understanding, Application, Analysis	Marks
L3	Displays full slew of skills across AO1, AO2 and AO3:	8-10
	• A balanced and well-developed answer analysing the two different	
	efficiencies (R1: allocative efficiency; R2: Dynamic inefficiency /	
	Productive efficiency)	
		5 7
L2	Displays A01 and A02 skills:	5-7
	 An under-developed but balanced answer (eg ability to analyse allocative efficiency but is unclear/unexplained) 	
	 Imbalanced response that analyses either efficiency only, especially allocative inefficiency is weak 	
	anocative memoriency is weak	
L1	Uneven display of AO1 and AO2 skills:	1-4
	 An under-developed answer that has a limited scope 	
	Many conceptual errors	
	No economic framework in analysis	
	Question requirement is not addressed	
	Evaluation	Marks
E3	Well-reasoned judgement	4-5
	• A well-reasoned judgement about the respective approaches in context	
	and how they compare.	
E2	Largely unexplained judgement	2-3
	Some attempt to explain judgement	
E1	An unsupported judgement	1
	 Most evaluative statements or judgements that are neither supported nor relevant to the appeific context of the guardian 	
	relevant to the specific context of the question	

- **5** Singapore is amongst the top business hubs in the world. Amidst stiff competition, Singapore offers one of the lowest corporate tax rates at 17%.
 - (a) Explain how the constraints of a small domestic market and lack of resources make it challenging for Singapore to achieve price stability. [10]
 - (b) Discuss whether the policy of a low corporate tax rate is most effective in allowing Singapore to overcome price instability. [15]

Suggested answers

(a)

Question Analysis Framework		Details
Approach	Command word	Explain
	Start point	R1:
	-	Explain how small domestic market makes Singapore
		vulnerable to demand-pull inflation

		R2: Explain how lack of resources makes Singapore vulnerable to cost-push inflation
	End point	How inflation results from Singapore's unique context
Content	Content	Demand-pull inflation
& Context	(Scope of coverage)	Cost-push inflation
	Context	Singapore

R1: Small domestic market means that Singapore has to be an open economy, being highly dependent on exports for its growth.

Singapore has a population size of only about 6 million, meaning that domestic Consumption by Households and Investment by local firms is very small as part of overall AD. Singapore has to adopt an outward orientation as an open economy to fuel economic growth.

In times of strong economic growth as experienced by a significant trade partner like China, their demand for Singapore exports (normal goods) rise as YED for Singapore exports is more than 0. The rise in demand will be even more significant for Singapore luxury goods where YED > 1.

Since export revenue is P x Q, Singapore's export revenue will rise.

Assuming ceteris paribus, AD rises => extent of rise depends on extent of economic growth by China and proportion of Singapore exports being luxury goods.



When AD rises, there is increasingly competition for the increasingly scarce factors of production. Firms compete among themselves to offer higher wages and rents for labour and land respectively. This translates to higher final prices of goods and services in the economy, leading to demandpull inflation.

Given that the source of demand-pull inflation is beyond Singapore's control, a rise from AD1 to AD3 leads to demand-pull inflation in Singapore, making Singapore vulnerable to price instability.

R2: Lack of resources means that Singapore is highly dependent on imported resources, making it vulnerable to cost-push inflation.

Singapore relies heavily on the world for imports like oil, agriculture, intermediate goods like semiconductors, technology, etc.

- When foreign countries experience inflation and Singapore imports heavily from these countries, Singapore is vulnerable to imported inflation.
- When price of such commodities increase due to rise in demand and/or fall in supply, Singapore also experiences higher cost of imports. For example, the ongoing Russia-Ukraine war led to supply crunch in food and energy globally.

For countries like Singapore that does not produce sufficient energy and food and is a net importer, the rise in COP is experienced through many sectors of the economy, SRAS1 falls to SRAS2.

With higher COP, profit-maximising Singapore firms have to charge higher prices for its final goods and services.

This translates to overall rise in GPL in Singapore from P1 to P2 as shown by the Figure below.



Level	Knowledge, Understanding, Application, Analysis	Marks
L3	Displays full slew of skills across AO1, AO2 and AO3:	8-10
	 Well elaborated and accurate explanation of how Singapore's context makes its vulnerable to demand-pull and cost-push inflation. Clear explanation using AD-AS analysis. 	
L2	Displays AO1 and AO2 skills:	5-7

	 Accurate but under-developed explanation of the above. Low L2: One-sided response of either demand-pull or cost-push inflation. 	
L1	 Uneven display of AO1 and AO2 skills: Answer is mostly irrelevant such as focusing on other macro goals instead. Shows some knowledge of the AD-AS analysis but lacking accuracy and with confusion. 	1-4

(b) Discuss whether the policy of a low corporate tax rate is most effective in allowing Singapore to overcome price instability. [15]

Question Analysis Framework		Details
Approach	Command word	Discuss whether
	Start point	R1: Low corporate tax enables Singapore to mitigate demand-pull inflation
		R2: Gradual and modest appreciation of currency enables Singapore to mitigate cost-push inflation
	End point	Which policy better enables Singapore to achieve price stability
Content	Content	Macroeconomic policy workings as analysed by AD-AS
& Context	(Scope of coverage)	framework
	Context	Singapore

R1: Low corporate tax rate can allow Singapore to overcome price instability.

Corporate tax policy is a supply side policy, aimed at increasing productive capacity and hence LRAS.

A relatively low corporate tax rate of 17% attracts FDI into Singapore since this increases their post-tax profits compared to if they were to invest in another country.

With higher inflow of FDI into Singapore, the quantity and quality of factors of production rise, augmenting Singapore's current resources. FDIs usually bring along new technology as well.

With rise in quality of FOPs and technology, even with the same amount of resources, the productivity of resources rise as more output can be produced per man hour. This increases Singapore's productive capacity ie the maximum output that can be produced when all FOPs are fully employed. LRAS rises from LRAS1 to LRAS2.

This reduces the competition for scarce factors of production, reducing GPL from P1 to P2.

[Students can explain how this relieves demand-pull or cost-push inflation]



IEV:

- Low corporate tax in the short run raises I and AD. Hence, it may lead to demand-pull inflation initially. However, this is not a significant concern as LRAS will eventually rise, alleviating price pressures.
- Maintaining low corporate tax rates may not be easy as other countries would also consider lowering theirs and hence compete with Singapore for FDIs. Singapore may need to lower corporate tax rate further. However, need to be mindful of competitive lowering of tax rates which will not benefit the countries involved. Singapore will thus also need to look into other factors to attract FDIs such as improving workforce productivity, upgrade infrastructure such as readiness for AI, etc.
- Global minimum tax law, led by OECD, prevents countries from engaging in competitive lowering of corporate tax rates. In the longer term, Singapore may need to look into other factors to attract FDIs such as improving workforce productivity, upgrade infrastructure such as readiness for AI, etc.

R2: Low corporate tax rate is insufficient in allowing Singapore to overcome price instability. Another policy is needed ie gradual and modest appreciation of the Singapore dollar.

Singapore's exchange rate policy can reduce demand-pull inflation

When S\$ appreciates,

- Price of exports rise in terms of foreign currency, Qx falls (Law of Demand)
- Price of imports fall in terms of domestic currency, Qm rises (Law of Demand)

Apply Marshall-Lerner condition:

- Singapore's exports have many close substitutes in the global market. Hence PEDx > 1.
- Since PEDx + PEDm > 1, MLC condition holds.
- > An exchange rate appreciation thus leads to (X-M) and hence AD to fall.

> With a fall in competition for FOPs, demand-pull inflation is mitigated.

Intermediate EV:

- However, with cheaper Pm, this reduces COP for exports. Eventually, Px will fall, increasing export price competitiveness. This will mitigate the fall in AD and minimise impact of reducing demand-pull inflation.
- In the short run, PEDx may be less than 1 as foreign consumers are not easily able to switch their preferences away from Singapore exports ie they consider Singapore exports to have little close substitutes. Hence MLC may not hold and hence AD may rise instead, worsening demand-pull inflation.

OR

Singapore's exchange rate policy can reduce cost-push inflation

With appreciation of S\$, price of imports in terms of domestic currency falls.

This lowers the cost of imported factors of production.

Lower COP translates into lower price of final goods and services, GPL falls.

Cost-push inflation is mitigated.



Intermediate EV:

There is a limit to how much currency appreciation can mitigate cost-push inflation.

- If the cost of raw materials rises sharply due to global shortage, then the mitigation will be insignificant.
- Depends on availability of forex reserves that Singapore government has. To appreciate S\$, the government needs to sell foreign currency in exchange for S\$. While Singapore currently has sufficient foreign reserves, it is not perpetual.

Summative Evaluation:

- Gradual & Modest appreciation exchange rate policy would be more appropriate since it mitigates both demand-pull and cost-push inflation. This is also as there is a limit to how much more corporate tax rate can be lowered from the currently low 17%.
- Maintaining a low corporate tax could be more feasible as a long term policy as currency appreciation requires the availability of foreign reserves.

- **6 (a)** Explain how weaker global economic outlook and loss of comparative advantage might impact unemployment rates in an economy. [10]
 - (b) Discuss whether the use of monetary policy centred on interest rate is sufficient to reduce unemployment in an economy. [15]

Suggested answers

(a)

Level	Knowledge, Understand	ling, Application, Analysis	Marks
L3	Displays full slew of skills	across AO1, AO2 and AO3:	8-10
	 A well-balanced answ 	ver comprising analysis of corporate tax policy and	
	1 other policy to addre	ess cost-push and demand-pull inflation in context	
L2	Displays AO1 and AO2 s	kills:	5-7
	An under-developed	but balanced answer comprising analysis of	
	corporate tax policy a	nd 1 other policy to address cost-push and demand-	
	pull inflation.		
	 Imbalanced response 	e of only 1 policy or only address cost-push or	
	demand-pull inflation		
L1	Uneven display of AO1 a	nd AO2 skills:	1-4
	 An under-developed a 	answer that has a limited scope	
	 Many conceptual error 	rs	
	No economic framew	ork in analysis	
	Question requirement	t is not addressed	
	Evaluation		Marks
E3	Well-reasoned judgemen	t	4-5
	 A well-reasoned judg 	ement about the respective usefulness of policies	
	that can address infla	tion in Singapore.	
E2	Largely unexplained judg	ement	2-3
	 Some attempt to expl 	ain judgement	
E1	An unsupported judgeme	nt	1
	 Most evaluative state 	ments or judgements that are neither supported nor	
	relevant to the specifi	c context of the question	
Questi	on Analysis Framework	Details	
Approa	ch Command word	Explain	
	Start point	R1:	
		Explain how weaker global economic outlook	impact
		unemployment rates	

		R2: Explain how loss of comparative advantage impact unemployment rates
	End point	How unemployment rates are raised
Content	Content	Demand-deficient unemployment
& Context	(Scope of coverage)	Structural unemployment
	Context	An economy

Unemployment refers to the situation in which individuals who are capable of working, are actively seeking work at the current wage rate, but are unable to find a job. Both weaker global economic outlook as well as a loss in comparative advantage will impact unemployment rates by raising demand deficient unemployment and structural unemployment respectively.

R1: Explain how weaker global economic outlook impact unemployment rates

- Weaker global economic outlook is due to slowdown in major economies as well as geopolitical tensions and conflicts. This causes consumers and producers to reduce consumption and investment due to a lowered confidence as they fear loss of jobs or expect a lower rate of return for investments. This causes a fall in consumption and investment expenditure causing a fall in AD.
- Multiplier effect causing greater fall in AD (diagram)
- As firms experience a fall in demand due to falling income and hence cut back on their production, demand for labour would be reduced and excess workers would be retrenched. This would result in an increase in demand deficient unemployment due to a fall in AD.

Optional: Explain how at the current existing wage rate, there is a surplus causing demanddeficient unemployment

R2: Explain how loss of comparative advantage impact unemployment rates

- Comparative advantage refers to an economy's ability to produce a particular good or service at a lower opportunity cost than its trading partners.
- With the increasing globalization of the world economy which has resulted in an increase in trade and encouraged the flow of capital and investment across countries. This has resulted in the changing and loss of comparative advantage in the production of goods and services for some countries which has resulted in structural unemployment in the countries.
- As countries open up for trade and investment, firms would be encouraged by the desire to maximize their profits by increasing their total revenue and / or lowering their cost of production. This has resulted in the shift of the production of labour-intensive, lower value goods to countries with a comparative advantage in the production of these goods such as China and Vietnam.

- As a result, workers from countries with a higher labour cost may be retrenched and these workers may not have the necessary skills to work in the higher value, capital intensive industries as the countries undergo economic changes and shift to the production of the higher value goods and services.
- This has resulted in an increase in structural unemployment in the more developed economies with higher labour costs.
- Hence, one of the causes of unemployment in today's highly globalized world would be a flow of trade, capital and investment across the different countries which has caused a change in the comparative advantage for the production of goods and services in some countries.

Level	Knowledge, Understanding, Application, Analysis	Marks
L3	 Displays full slew of skills across AO1, AO2 and AO3: Well elaborated and accurate explanation of how weaker global economic outlook and loss of comparative advantage might impact unemployment rates in an economy with demand deficient and structural unemployment. Clear explanation using AD-AS analysis. 	8-10
L2	 Displays AO1 and AO2 skills: Accurate but under-developed explanation of the above. Low L2: One-sided response of either demand-deficient or structural unemployment 	5-7
L1	 Uneven display of AO1 and AO2 skills: Answer is mostly irrelevant such as focusing on other macro goals instead. Shows some knowledge of the AD-AS analysis but lacking accuracy and with confusion. 	1-4

(b)	Discuss whether the use of monetary policy centred on interest rate is sufficient	nt to
	reduce unemployment in an economy.	[15]

Question Analysis Framework		Details
Approach	Command word	Discuss whether
	Start point	R1: Use of monetary policy centred on interest rate is sufficient to reduce unemploymentR2: Use of supply side policy to reduce unemployment
	End point	Which policy better enables Singapore to achieve lower unemployment
Content	Content	Macroeconomic policy workings as analysed by AD-AS
& Context	(Scope of coverage)	framework

Context	An economy.

Introduction

The use of monetary policy centred on interest rate would reduce the unemployment in an economy specifically the demand-deficient unemployment. However, it is insufficient alone and should be accompanied by supply side policies to address structural unemployment.

R1: Use of monetary policy centred on interest rate to reduce unemployment

- The use of an expansionary monetary policy centred on interest rate can be used to reduce unemployment. A decrease in interest rates would lead to an expansionary effect on the economy. This is because a fall in interest rates would decrease the cost of borrowing for households and firms. It would also decrease the incentive to save for consumers while increasing the rates of returns for firms. This would raise consumption (C) & investment (I) respectively. Lower interest rates and cost of borrowing could also increase firm's profits and subsequently the amount of taxable revenue that the government collects which could increase subsequent government expenditure (G) as well.
- Thus, there would be an increase in aggregate demand (AD).
- The economy then faces an unplanned running down of stocks of capital goods, with firms stepping up production of capital goods by hiring more resources such as labour (ie. derived demand), leading to factor owners receiving extra income, raising national income in the first round. This induces more consumption in the economy. The additional consumption by the first group of factor owners will now create additional income for another group of factor owners in the economy. National income will now rise by another round, albeit by a smaller amount. This process will then continue, with each round of increase becoming smaller; until the rise in income is too small to generate any further consumption. The magnitude of the subsequent increase in induced consumption will depend on the rate at which income leaks out (i.e. MPW) or is spent (MPCd).
 - As shown in Figure 3, there would be a rightward shift of AD from AD1 to AD2.



• As more output of goods and services is produced, firms will use more of their resources to increase production. Hence, the derived demand for labour to produce these goods also increases, decreasing demand deficient unemployment.

IEV:

- However, expected rates of returns is impacted by other factors as well, such as business confidence, and is thus interest rate insensitive. However, with poor economic outlook, investments may not rise significantly despite a decrease in interest rates. Hence, investment in Singapore may continue to be negatively impacted despite the decrease in interest rates as there are other mitigating factors which would cause investment to rise only by a limited extent, and unemployment may not fall significantly.
- The change in world interest rates might not impact an economy economy significantly such as Singapore. This is due to Singapore's small multiplier size. Due to our resource constraints and heavy reliance on imports, Singapore has a high marginal propensity to import (MPM). We also have a high MPS, due to our strong saving culture, and mandatory savings scheme via Central Provident Fund (CPF). With a small multiplier size, the increase in AD will bring about a smaller intended benefit in terms of increase in real national income, limiting the effectiveness of expansionary monetary policy to stimulate its economy.

R2: Use of supply side policy to reduce unemployment

- Due to reasons such as loss of CA when the economy undergoes economic structural changes, there would be a rise in structural unemployment. These workers may not have the necessary skills to work in the new industries which require a different set or higher level of skills. It is therefore necessary for the government to adopt appropriate supply side policies to increase the occupational mobility of the workers and at the same time help the firms to lower their costs of production and increase productivity.
- In the case of Singapore, to encourage the development of new comparative advantages based on a capital intensive, knowledge-based economy, a host of incentive packages have been implemented to help firms to increase productivity through automation and innovation in the production process as well as upgrading the skills of workers to meet the

demand of labour for these new industries. One example is SkillsFuture, where every Singaporean above the age of 21 years old is entitled to a credit of S\$500 for training purposes. For firms, there is the Automation Support Package and National Robotics Programmes to help them upgrade and increase their productivity and hence competitiveness.

Intermediate EV:

• Supply side policies requires a heavy and long-term commitment of the government. Effectiveness of this strategy would depend on the availability of resources to the government and the government's ability in correctly identifying and helping to develop the new comparative advantage of the economy and the workers acquiring the necessary skills that are required by the economy.

Summative Evaluation:

- Whether use of monetary policy alone is sufficient to address unemployment would depend on the root cause of unemployment and the time period. If a government faces demanddeficient unemployment, short-term policies such as MP would be preferred. On the other hand, if a government's aim is to tackle structural unemployment, supply side policies, which take a longer time to be effective, might be preferred.
- In the real world, it is more often than not a combination of root causes, thus, it would be better to make use of a mix of both policies to address both structural and demand deficient unemployment.

E	EJC 2024 H2 Examiners' report					
	Level	evel Knowledge, Understanding, Application, Analysis				
Ī	L3	Displays full slew of skills across AO1, AO2 and AO3:	8-10			
		• A well-balanced answer comprising analysis of interest rate policy and 1				
		other policy to address demand deficient and structural unemployment.				
Ī	L2	Displays AO1 and AO2 skills:	5-7			
		• An under-developed but balanced answer comprising analysis of				
		interest rate policy and 1 other policy to demand deficient and structural				
		unemployment.				
		• Imbalanced response of only 1 policy or only address one type of				
		unemployment				
L1		Uneven display of AO1 and AO2 skills:	1-4			
		 An under-developed answer that has a limited scope 				
		Many conceptual errors				
		No economic framework in analysis				
		Question requirement is not addressed				
ľ		Evaluation	Marks			
Ī	E3	Well-reasoned judgement	4-5			
		• A well-reasoned judgement about the respective usefulness of policies				
		that can address unemployment in an economy.				
Ī	E2	Largely unexplained judgement	2-3			
		Some attempt to explain judgement				
Ī	E1	An unsupported judgement	1			
		Most evaluative statements or judgements that are neither supported nor				
		relevant to the specific context of the question				